

CROWDFUNDING SUSTAINABILITY

HOW DO ENTREPRENEURS OF
SUSTAINABILITY PROJECTS UTILISE
THE POTENTIAL OF CROWDFUNDING
FOR FUNDRAISING?

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Abstract

Entrepreneurs of sustainability projects face difficulties in raising capital from conventional financial sources, primarily because of a weaker focus on financial performance. However, the emergence of crowdfunding as an alternative way of raising capital has opened doors for entrepreneurs of sustainability projects. In contrast to conventional for-profit investors, funders tend to be motivated by the projects' ideas rather than financial returns. Thus, crowdfunding is assumed to be suitable for sustainability projects because of their focus on social and environmental objectives. Despite the rapid growth of crowdfunding, research on the phenomenon remains limited. This study aims to explore how entrepreneurs of sustainability projects can utilise the potential of crowdfunding for fundraising.

We have conducted semi-structured interviews with five entrepreneurs and a crowdfunding expert in the Netherlands to examine their experiences in crowdfunding. The results show that geographical proximity and social networks are important for fundraising, particularly in the beginning of the campaign period. Furthermore, crowdfunding platforms can affect fundraising success, especially by acting as trustworthy intermediates. Entrepreneurs of non-investment-based crowdfunding campaigns also tend to be more committed to their projects' social and environmental objectives, while this is not prevalent to the same extent in investment-based crowdfunding campaigns. Finally, our findings indicate that signalling commitment to sustainability objectives in crowdfunding campaigns can positively influence the projects' appeal to funders.

Keywords: crowdfunding, sustainability, geography, social networks, trust, engaged crowd, crowdfunding platforms, intermediates, information asymmetry

Preface

This master thesis is part of the requirements for the MSc in Economics and Business Administration programme at the Norwegian School of Economics. We are majoring in financial economics and business analysis and performance management.

We are both genuinely interested in crowdfunding and want to study this phenomenon more closely. We have thus been fortunate to avail of the opportunity to kickstart the research project, Coolcrowd, initiated by the Centre for Rural Research at the Norwegian University of Science and Technology. In relation to this collaboration, we have received financial support that has enabled us to collect data in the Netherlands. This assistance is highly appreciated, and participating in this project has been a rewarding experience.

Writing this thesis has been an educational process. We express our gratitude to the people who have contributed to the results. First and foremost, we thank our supervisor, Ingeborg Astrid Kleppe. We really appreciate your close cooperation, constructive feedback and support throughout the process. Your engagement and involvement have been valuable to us. We also thank the project manager of Coolcrowd, Pia Piroshka Otte, for the partnership and especially for putting us in contact with informants. Additionally, we are grateful to Rotem Shneor from the University of Agder for interesting presentations and for recommending informants. Furthermore, we are indebted to the informants for taking time to answer our questions despite their busy schedules. This study could not have been conducted without their help. Lastly, our families and friends deserve our thanks for helping us in the entire process.

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1. Introduction

1.1 Background – Sustainable development and challenges in financing

“What is needed now is a new era of economic growth – growth that is forceful, but at the same time socially and environmentally sustainable” (World Commission on Environment and Development [WCED], 1987, p. 7).

A call for action towards global sustainable development was addressed by the WCED in 1987, under the leadership of Gro Harlem Brundtland. *Our common future*, also known as the Brundtland Report, describes sustainable development that “meets the needs of the present without compromising the ability of future generations to meet their own needs” (WCED, 1987, p. 16). Economic and social factors are currently threatening the preservation of the natural environment (WCED, 1987), causing negative impacts such as air pollution, surface–water degradation and toxic wastes in groundwater. Furthermore, global-scale effects, including ozone depletion, climate change and destruction of fisheries, have been discovered (Dean & McMullen, 2007). To address these challenges, there is an urgent and essential need to make progress towards economic development that preserves natural resources (United Nations Commission on Sustainable Development, 2007; WCED, 1987). If no action is taken, long-term economic impacts can be significant as the global economy on a large scale depends on natural resources (Dean & McMullen, 2007).

Today, sustainability is a guiding principle for both public policy making and corporate strategies (Finkbeiner, Schau, Lehmann, & Traverso, 2010). Large-scale environmental issues are causing concerns; consequently, environmental and cleantech innovations are disrupting traditional industries as markets for green businesses are simultaneously emerging (O’Rourke, 2010). Entrepreneurs of sustainability innovations are encouraged to play an important role in creating a global change towards sustainable development for future generations (Cohen & Winn, 2007). These entrepreneurs aim to balance economic, social and environmental goals, also referred to as the triple bottom line (Belz & Binder, 2015; Cohen & Winn, 2007).

We present the following fictive case to illustrate the aim and the mindset of entrepreneurs of sustainability projects. The case is based on information from several entrepreneurs.

Mindset of an entrepreneur of a sustainability project

Anne is a 38-year-old woman with an extensive background in the Dutch fashion industry. For several years, she had worked on customised high-end fashion projects. However, over the years in the business, she had become increasingly aware of the negative impacts caused by this industry. Her dream of working in fashion conflicted with the dark side of being involved in a corrupt industry, which was contributing to inequality and causing environmental harm. She thought that there must be a better way to engage in fashion that could gain both producers and consumers and at the same time, be sustainable for future generations. Three years ago, she decided to quit her job and start a new clothing brand that would focus on sustainability in all aspects.

Now determined to make her business completely sustainable, in her business model, she is targeting the main problems caused by the industry, as follows: (1) dangerous working conditions and unfair wages in developing countries, (2) carbon emission from transportation and (3) overproduction, causing large stocks and waste.

Her solution is tailored-clothing production using high-technology knitting machines. Its advantage is that each piece of clothing is custom made, as customers provide their own measurements through the purchase procedure. Classic, high-quality, perfectly fitting pieces provide customers with clothing that can last for a long time. Additionally, production does not exceed demand, reducing stock and waste. Furthermore, materials and production are local, which provides solutions to problems (1) and (2), considering that working conditions are controlled, and transportation distance is significantly reduced.

However, this is a costly way of doing fashion, and Anne does not know if consumers are willing to pay for it. The knitting machine is also expensive, and Anne faces challenges in how she can access the necessary capital.

Figure 1: The mindset of an entrepreneur of a sustainability project

Lack of access to capital is suggested as the entrepreneurs' greatest obstacle to starting and growing new businesses, indicating an excess demand for financing among entrepreneurs

(Kerr & Nanda, 2009). Banks, venture capitalists (VCs) and business angels are identified as common conventional financing options for entrepreneurs (Mason & Stark, 2004). However, entrepreneurs of sustainability businesses have generally experienced difficulties in acquiring funding from conventional sources due to the weaker focus on financial aspects (Brown & Murphy, 2003; O'Rourke, 2010). Conventional investors have been unaware of the opportunities provided by businesses with sustainability objectives; rather, such investors perceive sustainability innovations as investments involving high risks and low returns (O'Rourke, 2010).

In recent years, crowdfunding has developed as an alternative source of financing (De Buysere, Gajda, Kleverlaan, Marom, & Klaes, 2012). Crowdfunding enables entrepreneurs to raise capital by requesting small contributions from a large crowd, which often occur through Internet-based crowdfunding platforms (Belleflamme, Lambert, & Schwienbacher, 2014). Rapid progress in the development of information and communication technologies has facilitated the growth of crowdfunding. Additionally, the financial crisis in 2008 debilitated the global economy, causing conventional funding options to become less accessible to entrepreneurs and small businesses (De Buysere et al., 2012). This situation contributed to the development of alternative financing sources, including crowdfunding (Dushnitsky, Guerini, Piva, & Rossi-Lamastra, 2016). From a global perspective, the growth of crowdfunding has been driven by European and North American crowdfunding platforms (Dushnitsky et al., 2016). However, in 2015, the Asia-Pacific region experienced a massive growth in the crowdfunding industry. In comparison to the Americas and Europe accounting for 34 and 5.4 billion (bn) euros, respectively, the Asia-Pacific region accounted for almost 95 bn euros in 2015 (Zhang et al., 2016). De Buysere et al., (2012) suggest that crowdfunding is one of the most promising solutions to increase capital accessibility to entrepreneurs and small businesses.

Several studies point out crowdfunding as a financing alternative well suited for entrepreneurs of sustainability projects (e.g., Hörisch, 2015; Lehner, 2013). The entrepreneurs' commitment to social and environmental outcomes is highlighted as an element that fits funders' non-monetary motivations to support such results (Belleflamme, Lambert, & Schwienbacher, 2010; Lehner, 2013). Assuming that entrepreneurs of sustainability projects are important for sustainable development, crowdfunding can contribute to amplifying the change in this direction (Cohen & Winn, 2007).

1.2 Motivation and choice of study

Our thesis is part of the research project, Coolcrowd, initiated by the Centre of Rural Research at the Norwegian University of Science and Technology. The research project aims to explore the potential of crowdfunding for climate-friendly agricultural projects in Norway to offset carbon emissions from the transportation sector. Today, consumers have the opportunity to purchase climate credits to cover carbon emissions. However, the positive environmental impact of such purchases is generally distant and invisible to the consumers. Research suggests that a distant or an invisible impact on climate change acts as a barrier to climate-friendly behaviour (Ryghaug, Holtan Sørensen, & Næss, 2011; Stoknes, 2014). Therefore, Coolcrowd's overall objective is to explore *local* crowdfunding to “make climate reduction projects directly visible and relevant to people's lives – thus providing a greater motivation for investment” (Bygdeforskning, n.d.). As part of this research project, crowdfunding is explored more closely as it may have a huge unexploited potential for sustainability projects.

In this study, we aim to explore the experiences of entrepreneurs of crowdfunded projects with social and environmental objectives in order to gain insights into how the potential of crowdfunding can be utilised for fundraising. The entrepreneurs were identified through a Dutch crowdfunding platform that serves a niche market with a focus on sustainability. We chose the Netherlands because the crowdfunding industry is significantly more developed there than in Norway (Zhang et al., 2016). By interviewing five entrepreneurs of sustainability projects, we hoped to identify the factors that would determine how they could succeed in fundraising through crowdfunding. Furthermore, we interviewed an industry expert who could enrich our study and legitimise the information provided by the entrepreneurs.

1.3 Research questions

Sustainable entrepreneurship plays an important role in achieving sustainable development (Cohen & Winn, 2007), but access to financial resources is rather limited (Brown & Murphy, 2003; O'Rourke, 2010). Research suggests that crowdfunding is suitable for entrepreneurs of sustainability projects (Belleflamme et al., 2010; Lehner, 2013). The objective of this study is thus to explore how these entrepreneurs can successfully exploit the resources of the crowd to raise capital for their projects.

This thesis thus aims to shed light on the following main research question:

How do entrepreneurs of sustainability projects utilise the potential of crowdfunding for fundraising?

To answer our research question, we explore four aspects, which we have derived from the literature review and the interviews. This leads us to the following subquestions:

- **How do social networks affect entrepreneurs' capabilities to utilise the potential of crowdfunding for fundraising?**
- **How does geographical proximity affect entrepreneurs' capabilities to utilise the potential of crowdfunding for fundraising?**
- **How do crowdfunding platforms affect entrepreneurs' capabilities to utilise the potential of crowdfunding for fundraising?**
- **How does commitment to sustainability objectives affect entrepreneurs' capabilities to utilise the potential of crowdfunding for fundraising?**

1.4 Scope

Although crowdfunding represents a two-sided market, involving entrepreneurs and funders, as well as crowdfunding platforms, we have limited this study's scope. We are thus only

considering the *entrepreneurs*' perspectives in order to explore how they can successfully utilise the potential of crowdfunding. The study does not include the views and the opinions of funders and crowdfunding platforms.

Furthermore, we have restricted the study geographically by only exploring the Netherlands. We believe that this limit is important due to possible cultural and legislative variations across countries. We have also narrowed down the study to examining entrepreneurs of sustainability projects connected to a crowdfunding platform that solely serves such projects. As differences may exist among entrepreneurs on various platforms, we believe that this is a convenient limitation. Entrepreneurs generally have heterogeneous characteristics and business models, and aspects of fundraising will likely vary, depending on the crowdfunding platforms they choose.

We want to clarify that although this study is meant to provide information about entrepreneurs of sustainability projects and their opportunities to use crowdfunding to obtain capital, it may not be generalised to account for other entrepreneurs of sustainability projects in the Netherlands or in other countries.

2. Literature Review

We start this chapter with an introduction of sustainable development and current research on sustainable entrepreneurship, along with a short overview of financing opportunities for entrepreneurs of sustainability projects. Furthermore, we define crowdfunding and different types of its models and introduce the two-sided market where crowdfunding platforms serve as intermediates between entrepreneurs and funders. In two-sided markets, different issues can arise from information asymmetry. We introduce possible ways for entrepreneurs of sustainability projects to overcome such challenges in order to succeed in crowdfunding. We further consider which role crowdfunding platforms play in enhancing entrepreneurs' fundraising capabilities and how platforms contribute to reducing the level of information asymmetry between entrepreneurs and funders. Lastly, we present the effects of signalling a commitment to social and environmental objectives.

2.1 Sustainable entrepreneurship

Sustainable entrepreneurship is a relatively new field of research that stems from the concept of sustainable development. Despite the increasing attention to the issue by the academic literature in recent years, empirical studies are limited (Belz & Binder, 2015). A triple bottom-line approach is commonly applied to explain how entrepreneurs of sustainability businesses aim for economic, social and environmental goals (Cohen & Winn, 2007). These goals can be mutually reinforcing but are more frequently trade-offs of profits and principles (Hahn, Figge, Pinkse, & Preuss, 2010). Keskin, Diehl, and Molenaar (2013) argue that it can be challenging to align sustainable goals with product features that create customer value. Furthermore, making processes sustainable often involve higher costs, and to balance the triple bottom line, sustainable businesses are often positioned at the higher end of the market (Choi & Gray, 2008).

In relation to sustainable entrepreneurship, extant literature addresses the process involved, referring to “the recognition, development and/or exploitation of opportunities in social and environmental contexts” (Belz & Binder, 2015, p. 3). Cohen and Winn (2007) suggest that

environmental degradation is creating opportunities for entrepreneurs to recognise and exploit the issue, with possibilities of obtaining the triple bottom line of economic, social and environmental goals. Based on this, they propose that entrepreneurs play an important role in creating a global change towards sustainable development for future generations.

2.1.1 Financing sustainable entrepreneurship

Sufficient access to financial resources is an important part of the development of new businesses (Brown & Murphy, 2003). However, access to capital from conventional financial sources is suggested to be the largest obstacle that entrepreneurs face in early phases (Kerr & Nanda, 2009), due to information asymmetries and transaction costs (Ebben & Johnson, 2006). This case indicates an excess demand for financing among entrepreneurs, who are facing limited access to financing resources. Entrepreneurs of sustainability businesses are no exceptions in this regard (Brown & Murphy, 2003; O'Rourke, 2010), and the lack of financial resources is one of the major barriers to sustainable development (Ortas, Burritt, & Moneva, 2013).

Mason and Stark (2004) point out banks, VCs and business angels as conventional financing options for entrepreneurs. However, entrepreneurs of sustainability businesses encounter difficulties in acquiring financing from conventional investors (Brown & Murphy, 2003; O'Rourke, 2010). This issue can be explained by the entrepreneurs' focus on social and environmental objectives rather than financial returns, which do not gain conventional for-profit investors (Brown & Murphy, 2003). As a result, entrepreneurs of sustainability businesses lack easy access to financing from conventional investors because the investors consider the financial aspect as the most important investment criterion (O'Rourke, 2010).

In recent years, crowdfunding has developed as an alternative source of financing (De Buysere et al., 2012). Crowdfunding is assumed to be a financing option well suited for entrepreneurs of sustainability projects (Belleflamme et al., 2010; Lehner, 2013); thus, it can also lower barriers to sustainable development (Cohen & Winn, 2007). Research substantiates this assumption with arguments that funders are often attracted by the ideas and the core values of crowdfunded projects (Lehner, 2013). Belleflamme et al., (2014) argue that funders tend to enjoy the non-monetary benefits of crowdfunding investments. This

view is also supported by Bretschneider and Leimeister (2017), who find evidence that funders have prosocial motives for supporting crowdfunded projects, not solely economic motives. Crowdfunding platforms specialising in social and environmental projects are suggested as favourable for increasing the potential of crowdfunding for sustainability projects (Hörisch, 2015).

2.2 Crowdfunding

“With crowdfunding, an entrepreneur raises external financing from a large audience (the “crowd”), in which each individual provides a very small amount, instead of soliciting a small group of sophisticated investors” (Belleflamme et al., 2014, p. 1). This fundraising usually takes place on online crowdfunding platforms where entrepreneurs request funding from a large crowd by presenting their ideas and business plans and how they intend to allocate the money to their projects (Belleflamme et al., 2014).

Crowdfunding is an umbrella term that can be separated into different crowdfunding models, which vary in terms of what funders receive in return for their financial support (Bradford, 2012). The four types of crowdfunding are donation-, reward-, lending- and equity-based models (Belleflamme & Lambert, 2014). In the donation model, funders donate money to a project without receiving any form of tangible reward in return. This model is typically used to raise funds for charitable organisations (Bradford, 2012). In the reward model, funders receive non-financial compensation in return for their financial support. The compensation typically involves pre-ordering a product (Belleflamme & Lambert, 2014). The donation and the reward models are generally perceived as non-investment-based types as they do not offer funders monetary compensations (Belleflamme & Lambert, 2016). In the equity model, funders receive shares or future profit-sharing arrangements in return for their investments. Unlike the donation and the reward models, funders receive monetary compensations (Bradford, 2012). Similar to the equity model, the lending model also involves monetary compensations. In the for-profit model, funders (lenders) receive interest on the loans in a given period, while for pro-social platforms, funders only receive the loans back without any interest. The equity and the lending models are called investment-based types as they offer monetary compensations (Belleflamme & Lambert, 2016).

Crowdfunding platforms can offer a single crowdfunding model or combine different types on the same platform. De Buysere et al., (2012) define the latter as a hybrid business model, in which the crowdfunding platform offers several models at the same time. In the authors' example, a hybrid model may consist of a combination of loans and pre-sales, where the entrepreneur uses a proportion to repay the loan and the rest of the funds to finance the production of a product or a service. Additionally, the financing model can differ among crowdfunding platforms. The keep-it-all (KIA) or the all-or-nothing (AON) models are commonly used. The KIA model, also referred to as flexible funding, implies that entrepreneurs keep all the funds raised regardless of whether or not they reach their funding goals. The AON model, also called fixed funding, implies that entrepreneurs keep the funds raised only if their funding goals are reached by the end of the campaign period (Belleflamme, Omrani, & Peitz, 2015).

2.2.1 Two-sided markets and external effects

Crowdfunding platforms act as intermediaries that facilitate the interaction between the entrepreneurs who aim to raise funds and the funders who are willing to financially support a given project. The platforms serve a two-sided market, comprising the entrepreneurs and the funders (Belleflamme et al., 2015; Wessel, 2016). Two-sided markets are defined as “*markets in which two or more groups of agents interact via intermediaries or ‘platforms’*” (Armstrong, 2006, p. 668). In two-sided markets, the groups of participants exert external effects (network effects) on each other, which are managed by a platform (Belleflamme et al., 2015; Wessel, 2016).

In two-sided markets, the size of each participating group affects the platforms' perceived attractiveness. External effects can exist both *within* and *across* the two market sides. Cross-group external effects address the benefits of one participating group, depending on the size of the other participating group (Armstrong & Wright, 2007; Belleflamme et al., 2015). The effect of the size of *entrepreneurs on funders* can be either positive or negative. The effect is positive when funders prefer platforms with a larger number of entrepreneurs, as this offers more investment options. However, there is a negative network effect when funders favour

platforms with fewer entrepreneurs, as this case increases the chance of each entrepreneur reaching its funding goal, everything else given (Belleflamme et al., 2015). Belleflamme et al., (2015) conclude that platforms with a large number of entrepreneurs dominate those with fewer entrepreneurs, and funders generally prefer the former. However, this choice depends on funders' capabilities to coordinate projects that are likely to succeed (Belleflamme et al., 2015). The effect of the size of *funders on entrepreneurs* is unambiguous. A large number of funders are always preferred because they increase entrepreneurs' chances of reaching their funding goals (Belleflamme et al., 2015). In other words, platforms need to attract entrepreneurs to draw funders and vice versa (Wessel, 2016). Within-group external effects also exist on crowdfunding platforms. For *entrepreneurs*, the within-group external effect is negative because their opportunities to attain their funding goals decrease as the number of campaigns on the platform increases (Belleflamme et al., 2015).

For platforms attracting very different types of projects, it can be assumed that the funders consist of a heterogeneous group of people (Wessel, 2016). Belleflamme et al. (2015) explain that funders have heterogeneous preferences towards projects as different projects have varying features. Wessel (2016) argues that crowdfunding platforms should thus coordinate with funders to appropriate campaigns in order to avail of the positive external effects that funders exert on entrepreneurs. If coordination fails, a platform with a large number of entrepreneurs will increase funders' search costs, and suboptimal matching might lead to the campaigns' failure. To create and maintain a thriving ecosystem, the crowdfunding platforms need to facilitate interactions and transactions between the market sides. It is thus important to create favourable conditions for networks' effects to emerge, which lies at the core of platform management (Belleflamme et al., 2015; Wessel, 2016).

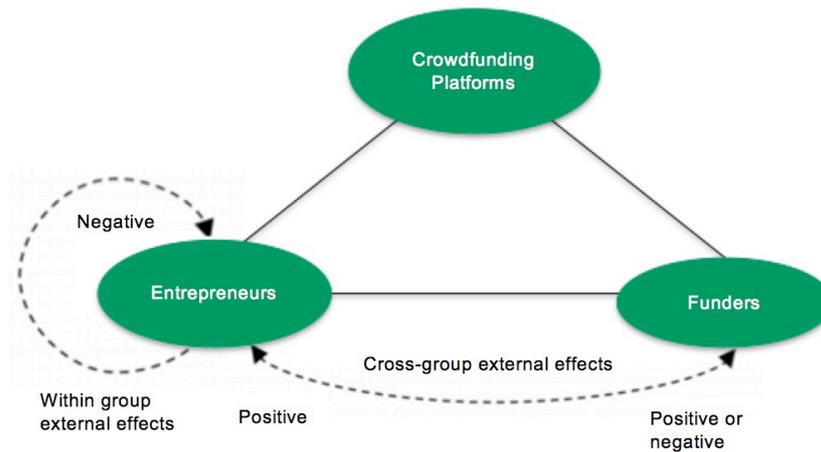


Figure 2: Two-sided Markets and Network effects (Authors, 2017).

2.2.2 Information asymmetry

A key challenge for crowdfunding markets is the issue with information asymmetry between entrepreneurs and funders (Ahlers, Cumming, Günther, & Schweizer, 2015; Belleflamme et al., 2014). “*Similar to other two-sided markets, decision-making processes on crowdfunding platforms are characterized by asymmetric information between the two market sides*” (Wessel, 2016, p. 16). In a crowdfunding context, information asymmetry implies that entrepreneurs have more information about the projects and their quality than funders (Agrawal, Catalini, & Goldfarb, 2014; Ahlers et al., 2015; Belleflamme et al., 2014). Information asymmetry between entrepreneurs and funders can make it difficult for entrepreneurs to obtain financing if funders’ propensity to invest decreases as a result of the lack of necessary information to estimate the projects’ chances of success (Agrawal et al., 2014; Wessel, 2016). Since we aim to explore how entrepreneurs of sustainability projects can utilise the potential of crowdfunding for fundraising, it is essential to address possible issues with information asymmetry, along with potential solutions.

Even though a certain level of information asymmetry exists among the different markets in every two-sided market, it is more severe in the crowdfunding context (Schwienbacher & Larralde, 2010; Wessel, 2016). First, there is usually a lack of publicly available information, which makes it difficult for funders to evaluate the chances of the projects’ success (Agrawal et al., 2014; Mollick, 2014). It also makes it easy for entrepreneurs to exaggerate the quality of their projects or withhold information (Mavlanova, Benbunan-Fich, & Koufaris, 2012;

Schwienbacher & Larralde, 2010). Second, as many crowdfunding projects are in their infancy, it is difficult to accurately predict their outcomes (Mollick, 2014). Third, the issue with asymmetric information is more difficult to resolve in the crowdfunding context because mechanisms that are often implemented in other two-sided markets are not relevant to crowdfunding, for example, reputation mechanisms (Wessel, 2016). Many online marketplaces provide publicly available customer reviews, allowing people to learn from customers' previous experiences before proceeding with their own purchases (Agrawal et al., 2014; Chevalier & Mayzlin, 2006). However, such feedback is difficult to implement in crowdfunding, as the actual quality of a given project cannot be evaluated before the campaign has ended. Since the investment decisions have to be made before the end of the campaign, the funders can make suboptimal decisions due to biased information provided by the entrepreneurs (Wessel, 2016). Ample space for further research still remains, especially on how entrepreneurs of sustainability projects can mitigate issues with information asymmetry.

Issues that can arise from information asymmetry

The issues that can arise from information asymmetry challenge the relationship between entrepreneurs and funders before (*ex-ante*) and after (*ex-post*) their financial transactions (Agrawal et al., 2014; Belleflamme & Lambert, 2014). Given that publicly available information about the projects is limited, funders lack the necessary information to estimate the projects' chances of success (Agrawal et al., 2014; Wessel, 2016). Two issues that may arise due to the presence of asymmetric information are adverse selection (*ex-ante*) and moral hazard (*ex-post*).

Ex-ante a financial transaction, asymmetric information leads to issues of adverse selection, implying that investments are being made that would most likely not occur with perfect information (Akerlof, 1970). *Ex-post* issues of moral hazards arise as the funders have little control of how entrepreneurs use their collected funds and whether or not they honour their promises (Belleflamme & Lambert, 2014). Furthermore, the lack of legal consequences of defaulting projects causes the entrepreneurs to take greater risks, transferring these on to the funders who bear the costs if the projects fail (Mollick, 2014). Lastly, the consequences of asymmetric information threaten the business model of crowdfunding. If the funders are too wary, they are unwilling to bear the risk of providing funds, resulting in difficulties for entrepreneurs to succeed through crowdfunding. As the platforms depend on the

entrepreneurs' success, it is crucial for all parties that the issues with asymmetric information are dealt with (Wessel, 2016).

In the crowdfunding context, there are different ways to mitigate issues with information asymmetry. As we are exploring how entrepreneurs of sustainability projects can utilise the potential of crowdfunding for fundraising, we focus on how the *entrepreneurs* can overcome these challenges. Geographical proximity and social networks are further explained in this regard. We also discuss which role crowdfunding platforms play in strengthening entrepreneurs' fundraising capabilities. This includes how crowdfunding platforms can serve as sources of competence and help entrepreneurs reach an engaged crowd, as well as the importance of the platforms' trustworthiness. The role that crowdfunding platforms play for entrepreneurs can also contribute to resolving issues with information asymmetry, involving both adverse selection and moral hazard.

2.3 Role of social networks

Social networks have long been considered important for entrepreneurs, including as a means to access finance for new businesses (Batjargal & Liu, 2004; Shane & Cable, 2002). Social networks involve people with both strong ties, such as family and close friends, and weak ties, such as mere acquaintances (Steffes & Burgee, 2009). However, in this research paper, we refer to social networks as people with strong social ties to the entrepreneurs. This is because the literature review and our findings primarily pertain to family and friends (F&F), who have closer relationships with entrepreneurs.

Early-stage financing literature suggests that investment propensity generally increases with funds raised (Agrawal, Catalini, & Goldfarb, 2015). This view is in line with Agrawal, Catalini, and Goldfarb's (2011) study, which shows that non-F&F increase their propensity to invest as crowdfunding projects accumulate capital, while this is not prevalent among F&F. In a more recent study, Agrawal et al. (2015) find significant differences between the timing of F&F and non-F&F investments. While F&F tend to make their first investments on crowdfunding platforms quickly, indicating that they do not search much on platforms as they already know the entrepreneurs to fund, non-F&F are inclined to make their first investments significantly later in comparison. Furthermore, F&F are less engaged on

platforms and have less interaction with the entrepreneurs than others. Overall, the differences between early and subsequent investments can be explained by the distinct investment patterns of F&F and non-F&F.

Because of their close social ties to the entrepreneurs, F&F can more easily measure the worthiness of a project (Agrawal et al., 2015). Moreover, they have an information advantage compared to other potential funders (Cumming & Johan, 2009). Cumming and Johan (2009) argue that it is easier to raise capital from F&F, as the information asymmetry is lower for people who actually have social ties to the entrepreneurs. These findings indicate that F&F are important for early-stage financing. Conti, Thursby, and Rothaermel (2011) contend that early investments by F&F can signal to other potential funders that a given project is of value. This phenomenon is also referred to as the observational learning theory or as information cascades in the finance literature, implying individuals' tendency to rely on others for their investment decisions (Vismara, 2015). In the crowdfunding context, where funders face uncertainty and lack of information, they can learn from preceding funders. If non-F&F base their investment decisions on information from others' decisions, F&F play an important role in providing this information at the initial stage of a campaign period (Agrawal et al., 2015).

Social networks also play an important role for entrepreneurs as they spread the word about entrepreneurs' projects to others. This practice is also referred to as word-of-mouth (WOM), where people pass along information through communication with others (Steffes & Burgee, 2009). Over the years, WOM has been widely studied, resulting in rich knowledge about the factors that drive people to engage in WOM and its consequences. Through WOM communication, people share their personal opinions or experiences about various topics, including products and services (Dellarocas, 2003). The phenomenon occurs through both traditional offline communication and online communication. When WOM communication happens through the Internet, it is referred to as electronic WOM (eWOM) (Steffes & Burgee, 2009).

Numerous studies show that WOM impacts consumer decision-making processes (e.g., Chevalier & Mayzlin, 2006; Duan, Gu, & Whinston, 2008). It is a mechanism that can build trust and help consumers make their purchase decisions (Kozinets, Valck, Wojnicki, & Wilner, 2010; Thies & Wessel, 2014). Hui, Greenberg, and Gerber (2014) place this

phenomenon in the context of crowdfunding, arguing that entrepreneurs should harness the power in their social networks to gain publicity and to reach a critical mass of potential funders. According to Thies and Wessel (2014), funders often rely on preceding funders for their investment decisions due to their limited information to evaluate the credibility of a given project. These situations may arise frequently in crowdfunding because investment decisions have to be made before funders can evaluate the actual success of a campaign. Therefore, Thies and Wessel (2014) argue that WOM can provide information to funders who want to follow the actions of others. This can help potential funders assess a project's credibility and trustworthiness (Thies & Wessel, 2014).

2.4 Role of geographical proximity

Existing literature suggests that conventional (offline) funding of new ventures often occurs locally. With offline investments, reputation and trust are usually built when the entrepreneurs and the funders are co-located; thus, geographical proximity is important (Agrawal et al., 2015). However, the growth of crowdfunding as an alternative source of financing makes it possible for entrepreneurs and funders to turn to Internet-based crowdfunding platforms for entrepreneurial financing. This situation indicates that with crowdfunding, geographical proximity becomes less important (Agrawal et al., 2015). Agrawal et al. (2011) examine an online crowdfunding platform where artist-entrepreneurs try to raise funds for music projects. They find that the average distance between entrepreneurs and funders on the online crowdfunding platform is about 5,000 km, suggesting that proximity does not play an important role. This is an interesting finding in comparison to the investment patterns of business angels. In contrast to crowdfunding investors, Harrison, Mason and Robson (2003) find that business angels typically invest within an hour's drive from their homes. This indicates that crowdfunding changes the investment patterns of investors, even opening up for cross-border investments.

Although Agrawal et al.'s (2011) findings show that geography's role is less important on online crowdfunding platforms, they uncover differences between local and distant funders when examining the investment patterns over time. Local funders tend to invest early in the campaign period, while distant funders are more likely to invest later as their propensity to invest increases with accumulated capital. However, the difference between local and distant

funders disappears when Agrawal et al. control for F&F in their research. They explain, “given the local nature of social networks, these family and friends are disproportionately likely to be local” (2011, p. 3). The funders with social ties to the entrepreneurs are thus more likely to invest early in the latter’s projects, regardless of location.

Some evidence helps explain the findings of Agrawal et al.’s study (2011), stating that local funders tend to invest early in the campaign period. First, geographical proximity contributes to mitigating issues with information asymmetry, which can foster trust between entrepreneurs and potential funders (Kang, Jiang, & Tan, 2017). Close geographical proximity can leverage other forms of communication, besides the online interaction. For instance, entrepreneurs and funders can meet personally, allowing face-to-face relationships. Having such personal relationships can foster trust and reduce the level of information asymmetry between the two groups, which in turn increases the entrepreneurs’ chances of raising funds.

Furthermore, geographical proximity allows funders to observe and monitor the development of the projects in which they have invested (Kang et al., 2017). According to Kitchens and Torrence (2012), “investors who live near the location of a startup or EGC [emerging growth company] investment offered through crowdfunding have [the] opportunity to meet the entrepreneur and literally watch their investment being built from the ground up” (p. 4). Numerous studies show that for VCs, the propensity to invest decreases with geographical distance because it is more difficult to perform due diligence and monitoring at a distance (e.g., Günther, Johan, & Schweizer, 2016; Sorenson & Stuart, 2001). Although crowdfunding involves similar early-stage financing as VC investments, there are significant differences between these types of investors (Günther et al., 2016). Crowdfunding investors have access to entrepreneurs’ projects through online platforms, making it easy to process information and even communicate directly with the entrepreneurs. However, there are still advantages for the funders located in areas close to the entrepreneurs. For instance, the funders can assure project quality by physically meeting the entrepreneurs and personally communicating with them. This can “help investors familiarize themselves with ventures, and their products/services may appear more tangible, which is commonly perceived to increase investment probability” (Günther et al., 2016, p. 20).

2.5 Role of crowdfunding platforms

Belleflamme and Lambert (2014) claim that crowdfunding platforms are better suited for mitigating the issues raised by information asymmetry than individual entrepreneurs are able to do themselves. Additionally, crowdfunding platforms can function as sources of competence and enable entrepreneurs to reach out to an engaged crowd (Viotto, 2015).

Trustworthy intermediates

By acting as trustworthy intermediates, crowdfunding platforms can reduce issues arising from information asymmetry (Belleflamme & Lambert, 2014). Research suggests several mechanisms that crowdfunding platforms can implement in order to act trustworthily. Concerning issues of adverse selection, Belleflamme and Lambert (2014) suggest that crowdfunding platforms can provide careful *screenings* of the projects to ensure their high quality and reliability. By conducting due-diligence processes, the platforms can ensure funders that the projects they provide are of high quality. As a result, funders are less likely to make suboptimal investment decisions. Furthermore, Cumming and Zhang (2016) find that due diligence has a strong positive effect on fundraising success and the amounts of funds raised. They argue that “the strong positive association between due diligence and fundraising success shows an important value for crowdfunding platforms in limiting the number of lower quality projects on a platform through active due diligence” (p. 27). Providing quality-assured projects can further contribute to creating a credible reputation for the platform, which is crucial in order to be perceived as a trustworthy intermediate (Belleflamme & Lambert, 2014).

Further, Belleflamme, Omrani, and Peitz (2016) suggest that crowdfunding platforms can provide funders with a “marked-based screening mechanism” (p. 9), which involves access to soft information about the entrepreneurs (e.g., reasons why they need funding). Providing information about the entrepreneurs reduces issues of adverse selection (Belleflamme et al., 2016). Bouvard and Levy (2013) suggest a tension between the incentives of the entrepreneurs and the funders, which can affect the level of accurate information that the entrepreneurs provide through the platform. While the entrepreneurs are interested in building a good reputation to increase their own attractiveness, funders are interested in the highest level of accurate information.

Belleflamme et al. (2016) argue that crowdfunding platforms' choices of financing models can contribute to mitigating issues with moral hazard, which arise after investments have been made. As described in Section 2.2, the choice is primarily between an AON model and a KIA model. To reiterate, the AON model, also called fixed funding, implies that the entrepreneurs keep the funds raised only if the funding goal is reached by the end of the campaign period. Otherwise, the money will be returned to the funders. This situation drives the entrepreneurs to set realistic funding goals, which serve as protection for the funders (Belleflamme et al., 2015). It also prevents the entrepreneurs from misusing the collected funds, as the platforms take control of conducting the financial transactions and ensuring that the entrepreneurs do not use the funds before it is certain that their campaigns will succeed (Belleflamme & Lambert, 2014). This safeguard reduces funders' perceived risk when supporting crowdfunded projects (Belleflamme et al., 2016).

Competence

Crowdfunding platforms can provide additional services that may be of interest to entrepreneurs. Examples include offering entrepreneurs free campaign videos, coding classes, legal services or support for paperwork administration for tax-reduction application (Viotto, 2015). Hemer (2011) argues that providing extra services to entrepreneurs is important because most entrepreneurs go through the crowdfunding process only once or a few times. Consequently, they are unlikely to gain the same experience and expertise in the field of crowdfunding as platforms that constantly undertake the process with entrepreneurs. The funding goal is frequently addressed as essential to fundraising success. According to Cumming and Zhang (2016), strategic advice, particularly in relation to the funding goal, is positively related to fundraising success. Hörisch (2015) explains that lowering the funding goal increases the chances of reaching it in cases where the AON model is applied. However, there is limited literature on how competence sharing by the platform affects entrepreneurs' fundraising capabilities.

Connecting with engaged crowd

Crowdfunding platforms usually focus on a specific niche market or a larger generic market (Viotto, 2015). Gierczak et al., (2015) suggests that crowdfunding platforms differ in how narrow their sectoral focus is; large generic platforms serve multiple markets, while specialised platforms only cater to a specific segment of the crowdfunding market.

Generic crowdfunding platforms connected with different types of projects are assumed to attract a heterogeneous group of funders (Wessel, 2016). Funders are heterogeneous on such platforms because their preferences towards projects differ due to the projects' varying features (Belleflamme et al., 2015). Wessel (2016) further suggests that to make use of the positive external effects that entrepreneurs exert on funders, it is relevant to coordinate with funders on campaigns of personal interest. Crowdfunding platforms can facilitate the coordination between the projects' features and the funders' interests. If collaboration fails, a platform with a large number of entrepreneurs will increase the funders' search costs, and suboptimal matching might lead to the campaigns' failure. Platforms that manage to coordinate appropriate campaigns with funders can decrease the funders' search costs and thus avail of the positive cross-group external effects of entrepreneurs on funders (Wessel, 2016). Hörisch (2015) puts this in the context of projects with environmental orientations. He suggests that such projects can face the difficulties in drawing the attention of potential funders on crowdfunding platforms that serve multiple categories. This is because environmental projects only represent a small amount of all the unrelated projects displayed. The study thus suggests that it is beneficial for environmental projects to use crowdfunding platforms specialising in sustainability, as it decreases the search costs for potential funders (Hörisch, 2015).

2.6 Commitment to sustainability objectives

The above-mentioned roles of social networks and geographical proximity concern all kinds of entrepreneurs, while the discussion in this section is more specific to entrepreneurs with social and environmental objectives. As briefly discussed in Section 2.1.1, crowdfunding can be a suitable alternative source of financing for entrepreneurs of sustainability projects. The contract failure theory implies that non-profit organisations are most successful with crowdfunding (Belleflamme et al., 2010). This can be explained by their signalling a strong commitment to the quality of the outcome instead of purely profit (Lehner, 2013). Lehner (2013) emphasises that funders are often attracted by the projects' ideas and core values rather than financial returns. Based on this view, he draws the connection to social ventures and argues that crowdfunding may be particularly suited for such ventures. This suggests that entrepreneurs can attract donations if they focus more on the social or the environmental purpose of their projects (Belleflamme et al., 2010; Lehner, 2013).

Thus, the contract failure theory can also apply to the entrepreneurs of sustainability projects in our context because of their special commitment to social and environmental objectives despite their aim to be profitable (Lehner, 2013). However, differences may exist among crowdfunding types, especially between non-investment- and investment-based ones. Since reward- and donation-based crowdfunding do not offer any monetary compensation to funders, the signalling effect may be stronger for this type of crowdfunding than for equity and loan. This point is further considered in our analysis.

2.7 Summary of research questions and literature review

To our best knowledge, no research has explored *how entrepreneurs of sustainability projects can utilise the potential of crowdfunding for fundraising*. Additionally, there is limited research on the crowdfunding phenomenon itself, which shows the importance of our study.

Issues associated with information asymmetry between funders and entrepreneurs challenge the potential of crowdfunding (Ahlers et al., 2015; Belleflamme et al., 2014). We apply Günther et al.'s (2016) theory, suggesting that **geographical closeness** to the entrepreneurs is important because it assures project quality and allows personal connections between entrepreneurs and funders. Furthermore, Agrawal et al. (2011) and Cumming and Johan (2009) find that F&F tend to invest early in the campaign period when information asymmetry is likely to be high, while non-F&F tend to invest later as the accumulated capital increases. Belleflamme and Lambert (2014) argue that **crowdfunding platforms** act as trustworthy intermediates and can thus mitigate issues with information asymmetry. Moreover, Belleflamme et al. (2015) contend that niche-based crowdfunding platforms attract funders who share a common interest. This makes it possible to utilise the positive external effects of entrepreneurs on funders, as it reduces search costs for funders. Funders are drawn to projects' ideas and core values rather than financial returns (Belleflamme et al., 2010; Lehner, 2013). Entrepreneurs can attract donations by signalling their **commitment to sustainability objectives** (Lehner, 2013).

To answer the main research question, we have formulated the following subquestions based on the literature review:

- **How do social networks affect entrepreneurs' capabilities to utilise the potential of crowdfunding for fundraising?**
- **How does geographical proximity affect entrepreneurs' capabilities to utilise the potential of crowdfunding for fundraising?**
- **How do crowdfunding platforms affect entrepreneurs' capabilities to utilise the potential of crowdfunding for fundraising?**
- **How does commitment to sustainability objectives affect entrepreneurs' capabilities to utilise the potential of crowdfunding for fundraising?**

Figure 2 presents an illustration of the main research question and the subquestions.

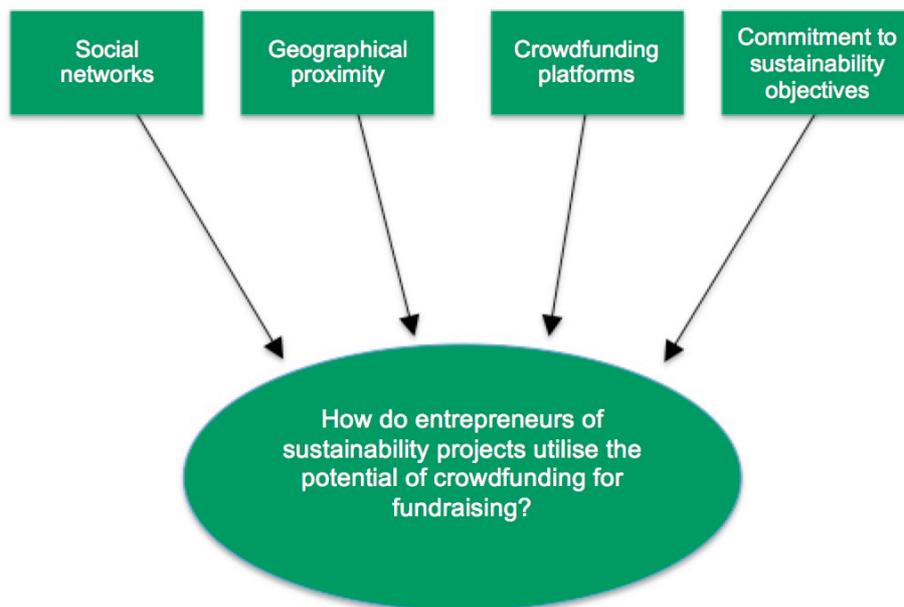


Figure 3: Summary of research questions and literature review (Authors, 2017).

3. Methodology

In this chapter, we explain our methodological choices for our research paper. Careful selections have been made to ensure an appropriate relationship between our method and research questions. We present our chosen research design and strategies, as well as the method for collecting and analysing the data. Finally, we address possible issues with validity and reliability, which are always concerns in research papers. Ethical considerations are also taken into account.

3.1 Research design

Research design is the “general plan of how you will go about answering your research question(s)” (Saunders, Lewis, & Thornhill, 2016, p. 163). It is a framework that contains methods of collecting and analysing data, derived from the research questions. Research designs can be exploratory, descriptive, explanatory or evaluative or a combination of these. In our study, we examine a relatively new phenomenon with limited existing research. Our aim is to gain insights and improve our knowledge about crowdfunding, which is a complex and dynamic phenomenon. Therefore, we choose an exploratory research design to answer our research questions (Saunders et al., 2016, p. 174). Exploratory research designs are highly flexible, enabling us to make changes as new data emerges. We aim to explore the phenomenon of crowdfunding for sustainability projects to develop a basis for future research. Thus, we are trying to build a theory through data collection and analysis, using an inductive approach (Saunders et al., 2016, p. 51).

3.2 Case study

It is important to choose an appropriate strategy to achieve methodological coherence throughout the research design of our study. We apply a case-study strategy, choosing cases with the aim of gaining an in-depth understanding of crowdfunding for sustainability. It is fundamental in a case study to “understand the dynamics of the topic being studied within its setting or context” (Saunders et al., 2016, p. 184), meaning that the interaction between the

case subject and its context should be studied. A researcher can choose a single- or a multiple-case design. We apply the latter to address our research questions. One advantage of a multiple-case study is that it permits cross-case conclusions, which will provide more compelling results and is regarded as more robust than a single-case study (Yin, 2014). Additionally, we believe that a multiple-case design is most suitable for our research, as our cases involve entrepreneurs of sustainability projects who have successfully used crowdfunding to raise capital. If we only studied a single case, we would not necessarily cover all the elements that are important when fundraising through crowdfunding. Furthermore, Yin (2014) distinguishes between holistic and embedded case-study designs. As our units of analysis are the entrepreneurs and their sustainability projects as a whole, we apply a holistic approach to this case study.

3.2.1 Selecting informants

According to Saunders et al. (2016), a researcher usually has to select a sample of the population, as it is nearly impossible to collect or analyse all the data available due to limitations of money, time and access. Considering this situation, it would have been unrealistic for us to interview all the entrepreneurs of sustainability projects in the Netherlands who had used crowdfunding. Therefore, we selected a sample of five entrepreneurs and one industry expert (all referred to as informants), based on different criteria.

We strategically selected the informants for our research. One criterion is that the informants either have used crowdfunding or have rich knowledge about this form of alternative finance. A further criterion is that the projects have sustainability objectives. Therefore, we selected five different projects through a sustainable crowdfunding platform in the Netherlands. By selecting projects from the same platform, we could ensure that the possible variations in the entrepreneurs' responses would not be caused by platform differences. Lastly, we only selected projects that had successfully completed their campaigns and raised funds through that platform. This enabled us to explore how they could attain fundraising success.

3.2.2 Informants

All of the informants have been kept anonymous, except from Ronald Kleverlaan., the founder of CrowdfundingHub. The entrepreneurs are coded C1, C2, C3, C4 and C5. We have also decided to use a pseudonym for the crowdfunding platform to ensure that our data does not contain information that can identify the entrepreneurs in any way. With thoughts of giving the right associations to the reader, we have decided to use the name *platform Green* because the platform only provides projects with social and environmental objectives. In the following paragraphs, we briefly present platform Green and the informants.

Platform Green is an Internet-based crowdfunding platform that operates in the Netherlands, purely providing social and environmental projects. The platform's hybrid business model offers a combination of crowdfunding types, including pre-sales of products (reward), donations, loans and convertible loans. Additionally, they use an AON model, which means that all the funds are repaid to funders if the funding goal is not reached within the given deadline (Belleflamme et al., 2015). They put much effort in careful screenings of entrepreneurs and their projects, particularly for the investment-based crowdfunding types that involve higher risks for funders.

C1 offers tailor-made knitwear that is produced with high-technology knitting machines based on customers' measurements. She manufactures premium-quality knitwear products with a strong focus on design. By producing only what the customers need and want, she manages to reduce stock and waste. Additionally, she uses low-impact, renewable and fair-trade raw materials in production.

C2 is in charge of marketing for a company that protects and restores coral reefs around the world. Today, coral reefs are threatened by human activities, which the organisation considers a critical issue that has to be addressed to ensure a sustainable future. As the coral reefs are essential for humanity, nature and wildlife in the ocean, the organisation has started this project.

C3 offers tents made of 100% recyclable cardboard. C3's team aims to address the problem at music festivals, where people leave their tents behind, creating a large amount of unrecyclable waste. In collaboration with festival organisers, the team provides temporary

tents that are already set up for visitors upon arrival. After the festivals, the cardboard tents can be recycled and reused in another production.

C4 offers e-bikes for people and businesses, available for either rental or purchase. The organisation uses smartphone technology, which makes it easy for consumers to access bikes from a variety of locations, not only limited to pick-up points. Its objective is to make e-bikes substitutes for cars, public transport, motorcycles and similar means of transport, thus offering a sustainable, environmentally friendly and healthy solution.

C5's company offers high-quality chocolate produced locally in the Netherlands. The employees perform all of the activities in the value chain themselves, thus differentiating their organisation from the industrial mass-production companies. They have their own factory where they burn, crack and roll the beans and produce chocolate on a small scale to ensure high quality. They try to reduce waste throughout the process by recycling waste and reusing materials for packaging. They also transport beans via sailing ships to ensure a sustainable and emission-free means of transportation.

Ronald Kleverlaan is the initiator of CrowdfundingHub, the European Expertise Centre for Alternative and Community Finance. He is also an advisor to the European Commission and a co-founder of the European Crowdfunding Network. CrowdfundingHub is based in Amsterdam but also has close cooperation with local experts throughout Europe. This research and consultancy network aims to build the "Alternative Finance Ecosystem" (CrowdfundingHub, n.d.). As the founder, Kleverlaan is one of the most experienced experts and leading thinkers in the crowdfunding and alternative finance field in Europe.

3.2.3 Overview of informants

	Role in the company	Type of interview	Crowdfunding type	Received amount of funding (in euros)	Pledged of funding goal
Entrepreneurs:					
C1	Founder/CEO	Face-to-face (length: 39 min)	Reward	31.606	211 %
C2	Marketing	Face-to-face (length: 40 min)	Donation	12.046	241 %
C3	Founder/CEO	Face-to-face (length: 29 minutes)	Loan	50.000	200 %
C4	Founder/CEO	Face-to-face (length: 22 minutes)	Loan	307.125	103 %
C5	Brand and marketing	Email	Reward/Loan	73.102	244 %
Industry expert:					
Ronald Kleverlaan	Founder/CEO	Face-to-face (length: 66 minutes)			

Table 1: Overview of informants

We have chosen to distinguish between the entrepreneurs and Kleverlaan in terms of which roles they play in our study. Kleverlaan provides an overview of the context and thus gives a better picture of the entire situation. In the analysis, we use the data from the interview with Kleverlaan to complement the information from the entrepreneurs. By doing so, we can achieve better and more valid results.

3.3 Data collection

As our study is exploratory, we have chosen to use a qualitative method in our research. A qualitative method is preferred when a researcher is trying to explore and gain a deeper understanding of a phenomenon (Saunders et al., 2016, p. 168). In relation to the qualitative method, we have collected primary data by interviewing informants who are appropriate for answering our research questions.

3.3.1 Semi-structured interviews

Semi-structured interviews are characterised as non-standardised and typically used in research that is analysed qualitatively (Saunders et al., 2016, p. 391). Semi-structured interviews are flexible but still involve a list of prepared themes and questionnaires that the

researcher wants to cover. This allows us to understand the “what”, “how” and “why” questions, while maintaining control of the interview. Therefore, we prepared two interview guides with questions prior to the interviews to keep a certain structure (Appendices A and B). One guide was for the entrepreneurs, and the other was for the co-founder of CrowdfundingHub. However, the questions could be adjusted from interview to interview, depending on each case. This could involve changing the order of the questions, given the conversation flow. As additional questions could be required to answer our research questions, the semi-structured interviews allowed us to ask the informants to elaborate on their answers if necessary.

We contacted all of the informants by email, asking them if they were willing to be interviewed by us. Five of the interviews took place in Amsterdam, at locations of the informants’ choice. Two interviews were held in their offices, one interview in a café and the last one in the informant’s apartment. The remaining interview was conducted through email. Each interview lasted from about thirty minutes to an hour. After the interviews, we continued interacting with several of the informants through email. It was valuable for our research to ask the informants additional questions after the interviews, as it helped us clarify some statements and enabled us to obtain more comprehensive responses from the informants.

3.3.2 Preparation

A key element of successful interviews is careful preparation beforehand. This mainly involves acquiring a rich base of knowledge about the research topic (Saunders et al., 2016, p. 401). To ensure we had detailed knowledge about the research topic, we did most of the literature review prior to the data collection. We also developed an interview guide with appropriate questions and themes that we wanted to address to be able to answer our research questions. We sent the interview guide to the informants a week prior to the interviews, allowing them to consider the information we requested and prepare for the interview (Appendices A and B). By receiving relevant information in advance, they could gather supporting documentation from other sources if necessary, which could impact the study’s reliability and validity.

Additionally, we studied available information about the people whom we would interview. This could help us demonstrate our competence and credibility as interviewers. Being knowledgeable about the informants and clearly showing interest in their projects/businesses could increase their willingness to share information that we would not obtain otherwise. Finally, we held several interesting and useful discussions about the research topic and the informants, which prepared us well for issues that could possibly emerge during the interview process.

3.4 Analysis of data

All of the interviews were audio-recorded after permission was obtained from the informants. Each interview was transcribed shortly after it was held to “avoid a build-up of audio-recordings and associated transcription work” (Saunders et al., 2016, p. 572). After the transcription was completed, each interview was carefully reviewed. We decided to follow a thematic analysis, which is a common method of qualitative analysis, so we could identify key themes from our data for further exploration (Saunders et al., 2016, p. 579). With our inductive approach, the themes were derived from the data collection.

First, we organised the data to establish a structure for its analysis. We prepared a list of different categories we considered important to answer our research questions. Initially derived from the literature review, the list was further refined after we conducted the interviews. The next step in our analytical process was to connect units of data to the appropriate category or categories. The units of data typically involved words, sentences or complete paragraphs. Some units were connected to more than one category, due to the interconnectedness between the categories. Furthermore, recognising close relationships between some of the categories, we decided to merge them in order to refine our analysis.

All of the categories were then arranged with a list of different units of data. This process enabled us to organise the collected data and to prepare it for structured analysis.

3.5 Evaluation of our research method

3.5.1 Validity

Validity refers to what extent the collected data is relevant and appropriate for answering the research questions, the data analysis is accurate and the findings are generalisable. A distinction is made between internal and external validity (Saunders et al., 2016, p. 181).

Internal validity

In relation to qualitative studies, internal validity denotes the credibility of the results. This implies to what extent our findings are congruent with reality, in other words, if our study actually measures what we intended to measure. To strengthen the internal validity, we consequently asked probing questions to urge the informants to elaborate on their opinions (Saunders et al., 2016, p. 400). We could then ensure that we would not misinterpret the data. It was important for us to clarify all ambiguities, especially since we were conducting the interviews in the Netherlands. Due to different languages and cultures, it was a concern that misunderstandings could occur. After the interviews, we sent emails to the informants on the topics that required further explanations and clarifications of their statements. We did this to ensure that our interpretation was aligned with what each informant actually intended to express.

For qualitative studies, another concern relates to how the interview questions are perceived by the respondents (Saunders et al., 2016, p. 402). Prior to the interviews, we thoroughly reviewed the interview questions to ensure that they were easily understandable. In cases where the respondents did not understand the questions, we provided complementary explanations. Thus, we could ensure that their answers were actually responses to our questions, which in turn would reduce the likelihood of misinterpretations. We also tried to improve the internal validity by phrasing the questions similarly for all informants. The interview guides were approximately identical for all the informants, except for the interview guide for the industry expert, Ronald Kleverlaan. Furthermore, we tried to avoid asking leading questions to ensure that the informants were not influenced by our potentially biased opinions. Lastly, since we were interviewing people with a central role in the start-ups [primarily the founders], we could ensure that they were professional and competent. This also contributed to increasing the validity of our study.

External validity

External validity refers to what extent the study's results can be generalised or transferred to other settings or groups. Because we were conducting a case study, generalisation of the results was a concern (Saunders et al., 2016, p. 398). Our study's purpose was not to obtain results that would be generalisable to all populations but to explore and explain a complex phenomenon in a specific context. Since our study was conducted in the Netherlands, our findings might not be transferable to other countries. Although the results are not generalisable, we believe that they are transferable to similar settings and that the lessons learned from our research can be applied to other settings.

3.5.2 Reliability

Reliability refers to what extent our results are consistent and replicable. A study has a high level of reliability if it is possible to obtain the same results if the study is replicated by other researchers or at a different time (Saunders et al., 2016, p. 202). A high level of reliability is always preferred because it indicates the trustworthiness of the results. However, it is difficult to measure the level of reliability in qualitative studies.

Data derived from non-standardised research methods are not necessarily intended for repeatable research since the circumstances are dynamic and complex and subject to change over time (Saunders et al., 2016, p. 398). The issues with reliability in studies employing semi-structured interviews concern the lack of standardisation. Additionally, different types of biases might occur in these types of interviews. One bias is related to how the interviewers could affect the informants' responses with their tone, body language and other non-verbal communication (Saunders et al., 2016, p. 397). Such type of bias could arise if the interviewer has his or her own opinions and beliefs and leads the interview in a certain direction. Biases might also result from the interpretation of the data (Saunders et al., 2016, p. 397). To limit the issue with interviewer bias, we asked open questions to ensure that we would not influence the informants' responses by our potentially biased opinions.

Furthermore, interviewee or response bias might occur as a result of the interviewer's perception or in relation to interviewer bias (Saunders et al., 2016, p. 397). However, such

biases are not always directed towards the interviewers in particular. They could also arise if the informants choose not to discuss certain topics to keep some information secret (Saunders et al., 2016, p. 397). To limit the issue with response bias, we tried to appear competent and credible in order to build trust. All of the informants were informed about our study's aim prior to the interview. Additionally, at each interview we had a short presentation of ourselves and our study to ensure that they were all well informed. The informants also chose the interview location and time to accommodate their preferences and schedules and to give them the opportunity to select a venue where they would feel comfortable. In relation to qualitative studies, it is important to be aware that informants might put themselves in a socially desirable role, in a positive or even a negative fashion. They then might withhold certain information. Response bias could thus cause inaccurate data (Saunders et al., 2016, p. 397). However, nothing indicates that this happened during our interviews.

In summary, issues may arise in qualitative studies that can decrease the latter's reliability. They are challenging to solve, and it is also difficult to measure the level of reliability. However, we believe that we did the necessary work to limit the issues concerning reliability. Since we were two interviewers and data analysts, it was possible to discuss and check with each other whether we agreed on the analysis and the conclusions. This would also improve the quality of our research and its reliability.

3.5.3 Ethical considerations

A number of ethical concerns can arise at different stages throughout the research process. One issue is related to how researchers gain access to participants. In this case, it is important that the individuals do not feel pressured into participating and that they do it of their own free will (Saunders et al., 2016, p. 249). We sent a request to all of our informants via email, where we also explained our study's purpose and what their potential role would be. We made sure that we did not put any pressure on the individuals to participate, and we informed them that they were free to withdraw from the study at any time.

Furthermore, it was important for us to ensure that the participants were given sufficient information about our study's purpose, making them aware of what their role in the study was intended to be (Saunders et al., 2016, p. 252). We also assured them about confidentiality and anonymity. One informant gave us permission to use his real name in our study, while the others were kept anonymous. At all interviews, we gave the participants written information about our study's purpose and how we believed that they could help with our study. It also involved an agreement stating that the interviews would be audio-recorded. It further informed the participants that the data would be analysed and used in our master thesis and that we would possibly use quotes from them. The written agreements were signed by both parties.

4. Findings and Discussion

In this chapter, we analyse our findings in light of the theory presented in Chapter 2. We have divided our findings and discussion into four sections, as follows: social networks, geographical proximity, crowdfunding platforms and commitment to sustainability objectives. Each section provides a collection of quotes from the interviews that are connected to the different aspects. Some of the excerpts are used in the text to substantiate our arguments. Furthermore, we use data from the interview with Ronald Kleverlaan to complement and validate the information from the entrepreneurs.

The literature review presents issues that can arise due to the presence of asymmetric information before and after a financial transaction, respectively, adverse selection and moral hazard. In our analysis, we explore possible ways for entrepreneurs of sustainability projects to resolve issues associated with information asymmetry. However, such issues pose concerns for all types of businesses, as these may affect potential investors' willingness to invest. We first explore the roles of social networks, geographical proximity and crowdfunding platforms, which can be relevant for all businesses. We then discuss more specifically how entrepreneurs of *sustainability projects* can overcome these challenges.

4.1 Role of social networks

How do social networks affect entrepreneurs' capabilities to utilise the potential of crowdfunding for fundraising?

A number of studies confirm the important role that social networks play in entrepreneurs' access to financing (e.g., Batjargal & Liu, 2004; Shane & Cable, 2002). As mentioned in Chapter 2, Section 2.3, we refer to social networks as comprising people who share strong social ties, such as family and close friends. Our findings show that they are the most important for the entrepreneurs.

*“It depends of course on the product that you are offering, but most of the time, you are raising money inside **your own network** or **extended network**. So that’s where 80% of your money comes from [...] because of the **trust** relation between the entrepreneur and the investor” (Ronald Kleverlaan).*

*“And we did have **help from friends** – that’s really what you need. We had a girl who did Facebook and Twitter, and another one who did the press releases, and my husband did the whole online thing – making the page and making sure we met all the conditions that platform Green gave us. And I did all the rest” (C1).*

*“On the platform, they advise you to really work on your **network** in the **beginning of the campaign** – so, that’s what we did [...] it’s that people from my own network 1) know about this project because they have **seen me** working on it, 2) **trust me** and **trust that I will deliver** something good [and] 3. wish that I **succeed**” (C1).*

*“My own network served as an **in between for new contacts**. They advertised for me through **word of mouth** or by suggesting to connect on Facebook” (C1).*

*“When people see others giving, the **mental barrier** to giving becomes lower. The **inner circle of your social network** is the catalyst for others to become involved. They are the **‘evidence’** that the cause is worthy of a donation” (C2).*

*“I think you need to get like 3,4 or 5% somewhere **very quickly**. If you’re doing 50,000, you need at least 2, 4 or 5,000 from your **own network**, at least, you know. And it needs to be on there **in an hour**. If people visit and it’s still zero, then they won’t do anything” (C3).*

*“It acted as a **jump start**. So the first funds came in **early** [...]. The **first funders** were from my **own network**, after that, no one from my network” (C3).*

*“One of the **keys to the success** of our campaign was the support of our **own network**, I guess. I think about 60–70% of the funding came from our network, 30–40% from unknown investors” (C5).*

Figure 4: Social networks - quotes

The quotes emphasise the importance of involving social networks in the crowdfunding process. It appears that social networks are especially essential for obtaining funds in the beginning of the campaign period to attract more funders. Furthermore, our informants explain how the role of social networks is significant due to the trusting relationships.

The majority of the informants stress social networks as important sources of funding, indicating that social networks play a crucial role in the entrepreneurs’ capabilities to reach their funding goals. Interestingly, our findings show that the entrepreneurs are more dependent on their social networks in the beginning of the campaign period. One of the

informants focuses on the importance of obtaining early funding “*very quickly*”, which “*needs to be on there in an hour*” after the campaign starts (C3). Another informant explains that if they are unable to get early funding fast, other potential funders will regard their projects as having failed, and their willingness to invest will decrease. These observations are in line with Agrawal et al.’s (2011) study of online crowdfunding platforms, suggesting that early investments play an important role in fundraising success because these can signal to potential funders that the project is worth their investments. As soon as the campaign receives the first investments early, more people will potentially join. One entrepreneur explains, the “*mental barrier to giving becomes lower*” (C2) when someone observes that others have funded the project. Vismara (2015) refers to this as “information cascades”, which in a crowdfunding context implies that funders tend to base their decisions on preceding funders, as the situation involves uncertainty and imperfect information.

One entrepreneur explains, “*The inner circle of your social network is the catalyst for others to become involved. They are the ‘evidence’ that the cause is worthy of a donation*” (C2). However, at the outset of a campaign, the level of uncertainty is high, and the early funders have to make their investment decisions long before they can be assured of the project’s success. In this context, research suggests that it can lead to suboptimal investment decisions, as the early funders have little information on which to base their decisions (Belleflamme et al., 2015), and the information provided by the entrepreneurs can potentially be biased (Wessel, 2016). There are as yet no preceding funders on whom to rely for their investment decisions. One entrepreneur emphasises involving his social network “*in the beginning of the campaign*” (C2); another explains that the early funding from his social network “*acted as a jump start*” (C3). These statements support existing literature. Agrawal et al. (2015) find that F&F tend to invest early, while non-F&F tend to invest as the accumulated capital increases. These results explain the importance of involving social networks early in the campaign period to increase the chances that non-F&F will invest at a later point in time.

The vital role of social networks can be explained by the trusting relationships that underlie such strong ties. People from someone’s social network is important because they already know and trust him or her. Ronald Kleverlaan explains that it is easier to raise funds from one’s social network due to the trust that exists in such relationships, which becomes evident in an entrepreneur–funder relationship. Another entrepreneur also emphasises the presence

of trust within social networks, citing three reasons why it is easier to raise funds through social networks. First, the social networks know about the project because *“they have seen me working on it”* (C1). Second, they trust C1, that *“I will deliver something good”*. Third, they wish for C1’s success. This viewpoint is also in line with existing literature; since the entrepreneur’s social network knows him or her well, the level of information asymmetry is lower than for other investors, which can limit the issue with adverse selection (Agrawal et al., 2011). As F&F feel a lower level of information asymmetry, they are more willing to invest early in the campaign period. They have additional information relative to non-F&F, influencing the process of identifying worthwhile investments (Agrawal et al., 2015). Overall, this finding can explain why the entrepreneurs highlight the importance of involving their social networks, especially in early investments.

Finally, some of the informants elaborate on the varied roles that social networks played for them in the crowdfunding process. One entrepreneur received help from F&F to share and promote the project on social media platforms, prepare the campaign site and complete the application process. The entrepreneur’s F&F helped directly with financial support and indirectly with practical tasks and by spreading the word about the project to potential funders. In this regard, WOM can be particularly effective in online marketplaces and communities (Kozinets et al., 2010). One entrepreneur explains that her social network *“advertised for me through word of mouth”* (C1). Furthermore, as the potential funders usually have to make investment decisions with limited information, WOM can act as a source of information, which creates trust and credibility. Thus, WOM can influence the number of funders, their investment decisions and willingness to invest. Crowdfunding is therefore considered an effective way to exploit social networks.

4.2 Role of geographical proximity

How does geographical proximity affect entrepreneurs’ capabilities to utilise the potential of crowdfunding for fundraising?

In this section, we explore the role of geographical proximity between the locations of the funder and the startup or entrepreneur. Different interpretations emerge from our analysis in

this regard, indicating that there is no clear answer yet on the role of geography in crowdfunding. Nonetheless, we gain insights into the entrepreneurs' perspectives to examine whether they consider proximity important and if so, why and when it is important for entrepreneurs to be geographically close to their funders.

*“And then you’ll see that running a marketing campaign is quite time consuming, especially if you are doing a lot of activities **offline** because offline is most successful with crowdfunding. It’s [crowdfunding] online, too, but **offline activities are more successful**” (Ronald Kleverlaan).*

*“80 % of the investors came from I think **10-20 kilometres around** the wind farm. So not farther away. They live nearby. Of course, all the marketing and activities were done nearby, but still, people were involved because they knew about it, they could see it, they could just go to it if they wanted to see how it developed” (Ronald Kleverlaan).*

*[Geographical proximity] is very important if there is **no other direct connection (personal connection with founders or interest in the topic)**. When there is a closer connection with the topic or the founders, the **location is less interesting**” (Ronald Kleverlaan).*

*“[...] in general, most of these [social] networks are **geographically bound**. So it’s about the Netherlands, or it’s even about your city where you are living in” (Ronald Kleverlaan).*

*“[...] we also made sure that we had an **offline program**, because for our product, that’s especially important, of course, because it is fabric” (C1).*

*“So, there is also a group of people **I have never seen**, and they never saw me, or they never felt the product or anything like that. And I think that’s more the audience that’s about the sustainability – the **sustainability people**” (C1).*

*“Because I think 90% of people funding us are **Dutch** [...]. Like with everybody else, the main group of my **social network** and especially the really close ones are mainly people who are also **physically close to me**. And looking at the two earlier questions, those automatically translate into more funders who are **geographically close**” (C2).*

*“We have this always every year, **an exhibition** here in the Netherlands about [...]” (C2).*

Figure 5: Proximity - quotes

The quotes imply that funders are located in close geographical proximity, allowing the entrepreneurs to maintain offline relationships with funders. Our informants emphasise that geographical proximity is especially important in certain situations, such as when there is no other form of direct connection between entrepreneurs and funders.

Our findings suggest that geographical proximity is essential because 1) the funders can watch their investments being built up from the ground, 2) the entrepreneurs and the funders can have offline relationships 3) and the entrepreneurs largely depend on their social networks, which are often located in close proximity. Ronald Kleverlaan draws an example from a project in which he had previously been involved. The investors were located closely to the project in which they had invested; about 80% of them were within a 10–20-kilometre distance. By being geographically close to the entrepreneurs, the investors had the opportunity to be “involved” in the project and “see how it developed” (Kleverlaan). This aligns with research suggesting that it can be valuable for funders to be located close to the project in which they have invested. Kitchens and Torrence (2012) explain that investors living near the locations of their investments have the opportunity to physically “watch their investment[s] being built” (p. 4). However, the importance of geographical proximity is not a new phenomenon; the role of geographical proximity in investment decisions has been studied for many years. For both business angels and VCs, it is clear that their propensity to invest decreases with geographical distance. They prefer geographical proximity as it is easier to conduct due diligence and monitoring when they are located near the venture (Günther et al., 2016; Sorenson & Stuart, 2001). Our findings indicate that this is also the case for funders in a crowdfunding context although not to the same extent because the funders can conduct due diligence online and secure a certain level of monitoring through crowdfunding platforms.

Another prominent way to express proximity is distinguishing between offline and online relationships. Our findings suggest that geographical proximity is important for entrepreneurs so that they can build and maintain offline relationships with funders. Some of the entrepreneurs reached the majority of their funders through offline activities they arranged themselves, indicating that building personal relationships with funders could have positive impacts on fundraising success. This was particularly mentioned by an informant who was running a reward-based crowdfunding campaign. The entrepreneur arranged offline activities prior to and during the campaign period. These activities involved different events where she invited potential funders to meet with her personally and to be familiar with the products. For instance, she organised a pop-up store where she offered pre-sales of the products. This was beneficial for her, as she could actually test if there was a market for the products and potentially attract funders who wanted to support her. The result was surprising; about 50% of the funders were recruited from the events. The success that the

entrepreneur experienced with her offline activities is in line with Günther et al.'s (2016) argument that offline activities can increase the entrepreneurs' probabilities of receiving funds. Kang et al. (2017) further explain that geographical proximity makes other forms of communication possible, such as face-to-face conversations, where funders get the opportunity to be familiar with the entrepreneurs and the products or services they offer.

Another entrepreneur states that he participates in an exhibition every year, allowing him to promote his project and communicate with potential funders and in doing so, engage people to support him. He emphasises how he used the opportunity to build an email list of people interested in the project, which later became an important source for attracting funders and maintaining personal connections with them. Kleverlaan supports the entrepreneurs' arguments, explaining that offline activities are more "successful" than online ones although more time consuming. This view is in line with that of existing literature, suggesting that personal connections between entrepreneurs and funders are easier when they are in close geographical proximity to each other (Günther et al., 2016).

Lastly, the structure of social networks can further support the importance of geographical proximity for entrepreneurs' fundraising success. As explained in Section 4.1 (Role of social networks), we have discovered that social networks are crucial for the entrepreneurs' fundraising success. Our findings further reveal that entrepreneurs' social networks are located at a close distance. One entrepreneur elaborates that the social networks "*mainly [comprise] people who are also physically close to me*" (C2). Kleverlaan supports this observation, arguing that social networks are often "geographically bounded". This is also in line with Agrawal et al.'s (2011) study, claiming that although social networks can exist both online and offline, they tend to be located in close proximity. Since the social networks play a significant role for entrepreneurs' fundraising success, close proximity can thus also be essential for the same reason.

On the other hand, our findings indicate that geographical proximity is less important when funders share a common interest in a project's cause. One entrepreneur explains that there was a group of funders she never had met before although she arranged several offline events to meet with the funders. She thinks that this is "*more the audience that's about the sustainability – the sustainability people*" (C1). Despite limited research on this topic, Kleverlaan's arguments support this finding. He explains that geographical proximity is less

important when there is “*no other direct connection (personal connection with founders or interest in the topic)*”. In our case, “interest in the topic” refers to the funders’ special interest in sustainability, indicating that it is less important for them to personally meet the entrepreneur in order to determine their willingness to support the project. Kleverlaan explains that a special interest in sustainability can act as a form of direct connection between the funders and the entrepreneurs, making geographical proximity less important.

4.3 Role of crowdfunding platforms

How do crowdfunding platforms affect entrepreneurs’ capabilities to utilise the potential of crowdfunding for fundraising?

In this section, we discuss how the role of crowdfunding platforms affects the fundraising capabilities of entrepreneurs of sustainability projects. Our findings reveal that platform Green performs three important functions in the entrepreneurs’ fundraising. First, the platform acts as a trustworthy intermediate between entrepreneurs and funders, which may increase the funders’ willingness to invest. Second, the platform provides additional services, as the entrepreneurs usually lack competence and experience in crowdfunding. Third, the platform connects entrepreneurs to potential funders who are interested in social and environmental objectives. In this context, the sustainability profile of platform Green can furthermore strengthen the signals that the commitment to sustainability objectives sends to funders.

4.3.1 Trustworthy intermediate

Crowdfunding platforms enable entrepreneurs to reach out to a large crowd, beyond their social networks (Belleflamme et al., 2014). This means that a lot of the funders are strangers to the entrepreneurs, which implies that funders face difficulties with limited information and uncertainty. Although trust is already present within the entrepreneurs’ social networks, this is not prevalent for people outside the networks. Our findings indicate that platform Green’s role as a trustworthy intermediate can contribute to fostering trust between entrepreneurs and funders. Trust can further increase entrepreneurs’ fundraising capabilities.

“Sometimes, investors or potential clients already have enough trust in you, and sometimes, you need to have **a third party, like a crowdfunding platform** in between because it **gives a bit more trust**” (Ronald Kleverlaan).

“If you [entrepreneur] are **accepted through a better platform**, then that’s more **credible**” (Ronald Kleverlaan).

“And for example, platform Green, they really, really make me sweat. They have a **high standard**, and you have to show that you have a **really serious business** and that **you are really reliable** and that your **plan is viable**. So that explains sort of why they have a higher success rate because once they give you the ‘go’, their **audience trusts them**, and you get a lot of **support from their audience** and they [platform Green] have a **good reputation**. So when you get into the media, **people will trust you [the entrepreneur] more**” (C1).

“For the platform, it [screening] is important because they don’t want to have **too many failures** on their platform. So if three out of five projects failed the year before, the **credibility of the platform will be less** because then, **nobody trusts the platform anymore**” (Ronald Kleverlaan).

“[...] if nobody checks that [the project’s figures], then less people will trust it. But if you are going through a process of a **platform checking your figures**, it makes much more sense for them to **trust the figures in the end**” (Ronald Kleverlaan).

“How did I experience platform Green’s requirements to disclose [information]? I think that [those were] more than fair. That’s what I said before, I mean [...]. That’s why I wouldn’t do that again at this stage because we have actually grown a lot. We also, I mean, I think we are on top of the race; we’re not the biggest company that does this in the Netherlands. I would not be very happy to do that again, to **disclose all my company’s information**, but at first, when you’re not so big, and you are trying to invest with somebody else’s money, I think it’s very wise that they ask it because **you don’t want to put your money in a lousy company**. So you want to **inform your investors** the best you can. So that’s why I believe definitely if you commit to a crowdfunding platform, you should be able to share everything [about] your company” (C4).

Figure 6: Trust - quotes

The quotes emphasise that the platform’s trustworthiness can have positive impacts on the entrepreneurs’ fundraising. They elaborate that they have to fulfil certain requirements of the platform, such as proving that they have serious businesses and disclosing information about these. There is a transparent understanding among our informants that this is important to make fundraising successful.

Our findings indicate that the entrepreneurs find it vital to earn the crowd’s trust, especially that of potential funders who are outside their social networks, where trust is generally absent. Platform Green’s trustworthiness is emphasised as important for building trust in the

relationship between entrepreneurs and funders. One entrepreneur stresses that platform Green has “a good reputation” and that “the audience trusts them” (C1). This can further affect the potential funders’ perceived trustworthiness of the entrepreneurs as “people trust you [the entrepreneurs] more”, resulting in “a lot of support” (C1) from these people. This perspective is supported by Ronald Kleverlaan, who argues that if the entrepreneurs are accepted on a “better” platform, it can signal credibility, whereas “better” is interpreted as having a high level of perceived trust among funders. Furthermore, he suggests that entrepreneurs can use crowdfunding platforms as intermediates to foster the funders’ trust; “*sometimes you need to have a third party, like a crowdfunding platform in between because it gives a bit more trust*”. Thus, our findings indicate that crowdfunding platforms’ trustworthiness can create trust in the relationship between funders and entrepreneurs and thus increase the chances of fundraising success. Research partly supports this, as Wessel (2016) argues that information asymmetry may cause funders to be too wary to provide financial support. When funders have limited information and face difficulties in predicting projects’ outcomes, they are less willing to bear the risk of supporting crowdfunding projects. Belleflamme and Lambert (2014) suggest that platforms can reduce issues arising from information asymmetry if they act as trustworthy intermediates. Different mechanisms can be implemented in order for crowdfunding platforms to achieve this goal. Cumming and Zhang (2016) explain that the *mechanisms* can further increase the projects’ fundraising success.

Our findings show that platform Green implements different mechanisms to mitigate issues with adverse selection and moral hazard that arise from information asymmetry. Three mechanisms are identified: screenings of projects, soft information about the entrepreneurs and their projects, and choice of financing models. First, platform Green *screens* the projects based on the application process, which implies that the entrepreneurs are required to fill out forms and provide specific documentation about themselves and their projects. One informant explains that the entrepreneurs are required to prove that they have a “serious business” and are “reliable”, as well as have a “viable plan” for the crowdfunding campaign (C1). This indicates that platform Green considers the projects’ quality, as well as the entrepreneurs’ willingness to put in efforts to succeed in their campaigns and further businesses.

Kleverlaan adds an explanation to this, emphasising that funders base their investment decisions on the crowdfunding platforms' screenings. When a platform is "checking the figures" of the entrepreneurs' projects, funders trust the figures more. "Figures" are interpreted as information about the projects' past performance that can indicate something about their future performance. This demonstrates the importance of having a third party (e.g., a crowdfunding platform). Kleverlaan elaborates that screenings can increase the platform's credibility because it is closely related to the level of "failures". In this context, failures refer to crowdfunding campaigns that do not succeed in raising the requested amounts of funds. Kleverlaan explains that platforms conduct screenings to avoid too many failing campaigns on the platforms because failures have a negative impact on the funders' perceived credibility of the platforms and trust in them. This indicates that trust in the *crowdfunding platform* is also based on the entrepreneurs' performances. Our findings are in line with research suggesting that platforms can screen projects to ensure high-quality and reliable projects for funders, resulting in high credibility and increased trust in the crowdfunding platforms (Belleflamme & Lambert, 2014).

Furthermore, our findings show that platform Green works to ensure that entrepreneurs provide a sufficient amount of *soft information* about themselves and their projects through their campaign sites. Some examples of soft information involve photos, videos and detailed descriptions of their projects and business plans (source: campaign sites). One informant argues that entrepreneurs should provide as much information as possible to increase funders' willingness to invest. He explains that from a funder's perspective, "*you don't want to put your money in a lousy company*" (C4). Belleflamme et al. (2016, p. 9) describe the soft information provided by entrepreneurs as a "marked-based screening mechanism". This implies that crowdfunding platforms can set requirements for the entrepreneurs to provide sufficient information to funders in order to deal with adverse selection.

Our findings show that entrepreneurs are not reluctant to provide sufficient information through their campaigns, as they understand the importance of doing so to satisfy the funders' interests. This contradicts Bouvard and Levy's (2013) arguments that entrepreneurs and funders have conflicting interests and that entrepreneurs may be reluctant to reveal all information about their projects despite funders' interest in accessing accurate information. Our entrepreneurs consider information disclosure strategically important because this can further affect funders' willingness to support the projects. However, one entrepreneur

emphasises that he would not do a crowdfunding campaign “*again at this stage because we have actually grown a lot [...]*”(C4). He further explains that for the same reason, he would not disclose the same information at this stage. This indicates that the entrepreneurs’ willingness to disclose information decreases with the growth of their businesses, as they may want to keep valuable information about their businesses to themselves. In line with Bouvard and Levy’s (2013) argument, this indicates that conflicting interests between funders and entrepreneurs can arise but not until a later stage of the businesses’ development.

Lastly, platform Green has implemented the *AON funding model*. This model implies that the funds raised are not used before it is certain that the entrepreneurs have succeeded with their campaigns. Belleflamme and Lambert (2014) suggest that this can work as a protection for the funders, as the entrepreneurs only keep the funds raised if they reach their funding goals within the campaign period. Belleflamme et al. (2016) further argue that this contributes to reducing moral hazard, which is an issue that implies funders’ lack of control over how entrepreneurs use the funds raised. Consequently, minimising this hazard lowers funders’ perceived risk of supporting projects.

4.3.2 Competence

Platform Green shares its competence in crowdfunding campaigns and offers additional services to the entrepreneurs, including strategic advice regarding their funding goals. As the majority of the entrepreneurs lack any former experience in crowdfunding, the platform’s competence sharing plays an important role in their fundraising capabilities.

*“I think that most people are **largely underestimating** [crowdfunding ...] because **it is a lot of work**. [...] They are totally **unaware of what crowdfunding is**, so they think, oh yes, crowdfunding – simple. Because I’ve heard some crowdfunding successes on Kickstarter, or I saw some crowdfunding campaigns raising a million euros in a day on a Dutch platform. That was very easy, so I just have to come up with a good idea and then automatically – even if they have a very good company, so because I have a very good company, then money will come in automatically. So they **really** underestimate it. And then, I have to explain, ‘Okay – what does it mean if you have a thousand different investors? You still have to convince all of them individually that they are willing to invest. So you have, **need to have a communication plan, a marketing plan**. You have to **follow up** with everyone individually – to thank them, to ask them to spread the message and all of those*

things'. It is a very **time-consuming process**" (Ronald Kleverlaan).

It was a **lot of work**. But yeah, it also depends on what you put in. So you kind of take out what you put in. And that's what they told us upfront. So, we worked really, really hard. **We didn't know** what was going to happen. We could have failed, too. So we wanted to make sure that we had done everything in our power **to make a success out of it**" (C1).

"But they said that I better **put my target down**, at 15,000 euros [half of the required amount], and then the **chances are bigger** that you will reach your goal. And if you don't reach the goal, you will feel like you have lost, and **people will regard your project as having failed**. [...] And I was like, I can't do that. [...] It's not true. I won't be able to do the project if we only get 15,000 euros. [...] They wanted to **make it really small and clear** for people what they can expect now. So, they are right, I think, because you can't expect people to **understand your visions**, your views if these are so far away" (C1).

"[...] more just generates extra donations because if you are already successful, you are **over 100%**, **people start donating more**" (C2).

"Kickstarter has a much **lower success rate** because they **don't interfere** with who enters their platform – or hardly – that's my impression" (C1).

"But it wasn't easy. It was also a bit of interference thing, you know. I was like, this is **my story**; this is **my business**. **Why do you interfere?**" (C1).

Figure 7: Competence - quotes

These quotes indicate the entrepreneurs' lack of experience and knowledge about crowdfunding. Our informants explain how platform Green engages in their campaigns by offering competence sharing and strategic advice. Overall, the quotes express a positive attitude towards the platform's level of interference, except for one entrepreneur who reports negative feelings about it.

Our findings reveal that all of the entrepreneurs experience a high level of interference from the platform. The overall impression from our findings is that the high level of interference is appreciated for two reasons: 1) the entrepreneurs underestimate the workload involved in crowdfunding, and 2) they lack the necessary experience and knowledge about crowdfunding. Ronald Kleverlaan explains that crowdfunding is a very "*time-consuming process*" prior to, during and after the campaign. One challenge with crowdfunding is that the entrepreneurs have to communicate with "*a thousand different investors*" and keep the funders informed and updated also after the campaign ends. Nonetheless, he says that entrepreneurs usually believe that crowdfunding is "*simple*" and that "*money will come in*

automatically” as long as they have good ideas. This view corresponds with the entrepreneurs’ perceptions in this study, as the findings indicate that they are unaware of the workload involved in crowdfunding.

The entrepreneurs also seem to lack the necessary experience and knowledge about crowdfunding. For the majority of them, this is the first time that they have used crowdfunding. Only one entrepreneur had previous experience in crowdfunding although on a different platform. Hemer (2011) notes that entrepreneurs go through the crowdfunding process only once or a few times, which can partly explain their lack of knowledge. Their lack of knowledge also seems to affect their choice of crowdfunding platform. One entrepreneur had the impression that platform Green offered strategic guidance and was highly involved in the crowdfunding campaigns. The entrepreneur believed that a high level of interference could increase her chances of success, which influenced her choice of platform Green. This is in line with Hemer’s (2011) arguments that entrepreneurs need guidance because they lack experience and knowledge, while the platform knows better how to succeed in a crowdfunding campaign.

Platform Green provides strategic advice to create and design crowdfunding campaigns. Our entrepreneurs elaborate on the funding goal as a point where the crowdfunding platform particularly interferes, often in terms of reducing the funding goal. One entrepreneur explains that platform Green emphasises that the *“the chances are bigger that you will reach your goal”* (C1) if the funding goal is lowered. This is anchored in the AON funding model. As the entrepreneurs only keep the funds if their funding goals are reached within the campaign period, they have to set realistic funding goals (Belleflamme et al., 2016). This indicates that platform Green’s advice to lower the funding goal to a realistic level can increase the entrepreneurs’ chances of fundraising success.

Additionally, our findings show that lowering the funding goal generates more funds as it attract more funders; *“if you are already successful, you are over 100%; people start donating more”* (C2). One entrepreneur explains that more people join when a campaign has reached its funding goal. This can be explained by the observational learning theory or information cascades, implying that people tend to base their investment decisions on preceding funders (Vismara, 2015). This is evident in the campaigns in our cases; all entrepreneurs exceeded their funding goals, with results ranging from 103% to 244%.

Considering this, lowering the funding goal can increase the chances of fundraising success; in turn, succeeding has a positive effect on funders' further willingness to contribute. This is in line with Cumming and Zhang's (2016) findings, suggesting that the platform's strategic guidance regarding the requested funding amount is positively related with both the fundraising success rate and the total amount raised through the crowdfunding platform. The strategic advice that platform Green provides may thus have a positive impact on entrepreneurs' fundraising success in our cases.

Although the majority of the entrepreneurs highly appreciate the help they received from platform Green, one entrepreneur describes a conflicting situation. The entrepreneur faced difficulties with some of the changes that platform Green suggested. Most importantly, the platform wanted to revise the project description *"to make it really small and clear for people what they can expect now"* (C1). The platform argued that the original project description contained future-based goals that were too distant for funders to relate to. However, changing the story was not in the entrepreneur's interest; *"this is my story; this is my business. Why do you interfere?"* (C1).

4.3.3 Connect with engaged crowd

Our findings indicate that platform Green's focus on sustainability projects can attract funders who share the same interests and are engaged in sustainability. Crowdfunding platforms may thus play an important role in the entrepreneurs' ability to reach out to a crowd that is more willing to fund their projects.

*"Platform Green does a lot of **environmental** projects as well, which were **related to what we were doing**"* (C4).

*"Because for our company, **sustainability is a core driver**, and we like to **appeal to the people who find this important**. We also believed that these people would be more involved and **enthusiastic to invest** in an initiative like ours. Each platform has its own network of people/companies who often invest in specific projects offered. Platform Green has a **network of people who are willing to invest in sustainable initiatives**"* (C5).

*"Because the **branding is right**. It connects [...]; it helps you if you are on a platform [that is] only*

*funding sustainable businesses. You can gain access to **impact investors** – so there are some impact investors **connected to the platform**. Don't overestimate the impact, the amount of money they will invest, but you will have some impact investors [...] with **interests in your idea**" (Ronald Kleverlaan).*

*"But there is one reason why people are not using Kickstarter [a large platform] – because **nobody can find them there**" (Ronald Kleverlaan).*

*"I can imagine that **the bigger the crowd, the better the funding goes**" (C4).*

*"But I was looking for a **high-quality audience**, so I was not looking for numbers but the **right people**" (C1).*

*"I must say I am kind of **disappointed in the number of projects**" (C2).*

Figure 8: Engaged crowd - quotes

These quotes emphasise the entrepreneurs' and platform Green's common focus on sustainability objectives. As the platform has a clear sustainability orientation, the informants believe that funders who are connected through the platform are interested in sustainability projects. Furthermore, some quotes express advantages and disadvantages regarding the size of crowdfunding platforms.

Our findings indicate that the entrepreneurs have chosen platform Green because of its focus on sustainability projects. They experience an ideology match as they both pursue social and environmental objectives. Our informants explain that this "shared ideology" corresponds to their identity and hence to their main reason for choosing a crowdfunding platform that pursues goals "*related to what we were doing*" (C4). Ronald Kleverlaan suggests that if the "*branding is right*", the platform's focus can also strengthen the entrepreneurs' branding messages. Branding messages are interpreted as the signals that a commitment to social and environmental objectives sends to funders. Thus, this indicates that platform Green's focus on sustainability can contribute to strengthening these signals.

Furthermore, research suggests that concentrating on a niche market attracts funders and entrepreneurs who are interested in that specific niche (Viotto, 2015). One entrepreneur explains that "*each platform has its own network of people/companies*" (C5), based on whose concepts it promotes. The entrepreneur's perception is that a platform with a sustainable focus has "*a network of people who are willing to invest in sustainable*

initiatives” (C5). By choosing a sustainable platform, the entrepreneurs believe that they can reach out to the “right people” who are more willing to invest in their projects. Kleverlaan supports this perspective, elaborating on the possibility to reach out to “impact investors” through the crowdfunding platform’s network. Impact investors are interpreted as funders who are interested in investing in sustainability projects. This indicates that crowdfunding platforms focusing on a niche market can attract funders sharing a common interest. Hörisch (2015) agrees, assuming that niche-based crowdfunding platforms draw a homogeneous group of funders. This reduces the funders’ search costs, as the projects provided through niche-based crowdfunding platforms are in the funders’ interest.

However, a niche-market strategy may be employed at the expense of the platform’s size. Crowdfunding platforms that focus on a niche market may be small in comparison to those that serve multiple product categories. One entrepreneur was “*disappointed in the number of projects*” (C2) on platform Green, arguing that to attract funders, a certain number of projects are necessary. Another entrepreneur explains that “*the bigger the crowd, the better the funding goes*” (C4), indicating that more funders are preferred. This can be explained by the funders’ positive cross-group external effect on entrepreneurs; more funders increase entrepreneurs’ chances of reaching their funding goals (Belleflamme et al., 2015).

Although some of the entrepreneurs are concerned with the size of platform Green, the majority are more concerned with *quality* than *quantity*. One entrepreneur explains that they were not aiming for “*numbers*” but a “*high-quality audience*” (C1). Kleverlaan also argues that the platform size is less important in this context. He explains that entrepreneurs face challenges with larger platforms because “*nobody can find them there*”. This is in line with the negative within-group effect of entrepreneurs, indicating that their chances of reaching their funding goals decrease as the number of campaigns on the platform increases (Belleflamme et al., 2015). Aligning the theory with the findings shows a trade-off between the *quality* and the *quantity* of funders connected to a platform. Our results indicate that the quality of funders connected to a niche-based crowdfunding platform can outweigh the quantity of funders in relation to entrepreneurs’ fundraising capabilities.

4.4 Commitment to sustainability objectives

How does entrepreneurs' commitment to sustainability objectives affect their capabilities to utilise the potential of crowdfunding for fundraising?

In this section, we explore the entrepreneurs' passion for sustainability and its effect on their capabilities to utilise crowdfunding for fundraising. All the entrepreneurs have sustainability goals integrated into the core of their business models. This appears in the interviews and in the information on their campaign sites. They emphasise their social and environmental objectives and how they can achieve positive impacts with their projects. The positive impacts they pursue are typically environmental improvements, such as reducing pollution and waste, and social improvements, including decreasing unemployment and ensuring good working conditions in developing countries. In addition to their social and environmental objectives, the entrepreneurs aim for their businesses to be profitable. Overall, in line with the *triple bottom-line approach* (Belz & Binder, 2015; Cohen & Winn, 2007), we find that the entrepreneurs pursue economic, social and environmental goals.

We find some variations in the levels of passion among the entrepreneurs. One of them stands out, expressing a strong inner passion for making social and environmental improvements within an industry that causes many negative impacts. *"So, I knew I wasn't able to solve everything at once, but I did feel that I had to focus on something that could also be sustainable in like a hundred years"* (C1). Another informant clearly focuses on goals of economic profitability. The financial motivation is particularly evident as the monetary aspects are clearly presented on the organisation's campaign site, where potential funders are able to download informative financial sheets. Sustainability objectives are also emphasised but as extra benefits that come along with funding the project. This indicates a weaker passion for sustainable objectives. These findings are interesting in light of Hahn et al.'s (2010) study, suggesting that social, environmental and economic goals can be mutually reinforcing but are more commonly trade-offs between profits and principles. As evident from our findings, some entrepreneurs of sustainability projects mainly focus on economic profitability, while others prioritise pursuing social and environmental impacts.

The differences in their passion for sustainability also become evident in how they initially came up with their project ideas. This can be referred to as the *sustainable entrepreneurship*

process (Belz & Binder, 2015). Cohen and Winn (2007) suggest that environmental degradation creates opportunities for entrepreneurs to recognise and exploit it, with possibilities to reach the *triple bottom line* of economic, social and environmental goals. Our findings indicate that our entrepreneurs discover opportunities from environmental degradation in some cases. Excessive exploitation of natural resources, threats to ecosystems and production of toxic waste in natural environments are among our findings. These are environmental issues that some of our entrepreneurs aim to positively impact, indicating their strong passion for sustainability. However, our findings show that opportunities are sometimes discovered differently. One entrepreneur elaborates on economic profitability as the primary cause of starting his project. He explains that he discovered an opportunity for business profitability that was unrelated to environmental degradation. However, social and environmental benefits also come along with it, so that the *triple bottom line* is approached. As the initial opportunity is not grounded in social or environmental issues, this can indicate a lower level of passion for sustainable outcomes. Overall, the findings reveal that although entrepreneurs approach *the triple bottom line*, the discovery of the projects' opportunities is not necessarily based on environmental degradation, which can further imply which level of passion for sustainability is possessed by the entrepreneurs.

“[...] *but the funding is, how do you say it, less important than the actual test of the concept. **Proof of concept.** That's what we were about. [...] I wanted to know if people would **find the idea interesting**” (C1).*

“[...] I was looking for **investments**, but I thought that the amount I needed was not enough to be interesting for an investor [...]. In that case, we came to the crowdfunding [...], but later on, **I did not expect** that it would **not only bring money** but would also bring other things like the **marketing** itself. It's worth something, and also you get a lot of **validation** if it works” (C3).

“ [...] to get **regular funding** [for the project] through banks and through the regular system is **nearly impossible** [...]” (C4).

“You can use your marketing campaign as kind of a **market research**. Are you able to reach out to the **right people**? Do they want to pay for your services?” (Ronald Kleverlaan).

“A lot of my presentations that I gave have started to ask, ‘**Is crowdfunding more than money?**’, and that summarises it. You can have money, okay, but what is the rest? What can you get out of it? [...] And the most simple explanation I will have is ‘Don't think about crowdfunding as being a financial campaign; think about it as a **marketing campaign** where you are also raising some money. Because at the end, you are **marketing your product** within your network, within your

community, and trying to get some money out of it” (Ronald Kleverlaan).

*“ They [the entrepreneurs] see it as a **financial activity**”* (Ronald Kleverlaan).

Figure 9: Motivations for crowdfunding - quotes

The quotes express different motivations for using crowdfunding. Some excerpts emphasise “proof of concept” as the motivation, whereas other consider it a “financial activity”. Furthermore, marketing effects are highlighted as additional influences that come with crowdfunding.

Interestingly, we find a connection between entrepreneurs’ passion for sustainability and their choice of crowdfunding type. The entrepreneurs who use the lending model evidently focus more on profitability goals in terms of *the triple bottom line*. Their main motivation for using crowdfunding is exclusively fundraising. They explain that they are “*looking for investments*” (C3) and that crowdfunding is an optimal alternative for financing because accessing regular funding “*through banks and through the regular system is nearly impossible*” (C4). These positions also correspond with Ronald Kleverlaan’s statements, arguing that most entrepreneurs consider crowdfunding a “*financial activity*”. He elaborates that an entrepreneur should rather look at crowdfunding as a “*marketing campaign*” to test if people are actually willing to pay for the product/service. This is because “*at the end, you are marketing your product within your network, within your community, and trying to get some money out of it*”.

In contrast, our findings indicate that the entrepreneurs who put more emphasis on social and environmental objectives use donation- and reward-based crowdfunding types. One entrepreneur with a donation-based campaign expresses a strong commitment to the project’s social and environmental objectives (C2). This is a non-profit business, and financial performance naturally receives limited attention as the organisation does not aim for economic profitability. Another entrepreneur with a reward-based campaign was motivated to use crowdfunding for market validation in order to figure out if it was a market for the product/service (proof of concept) (C1). Research suggests that funders are attracted by the projects’ ideas rather than purely financial performance (Lehner, 2013). This indicates that crowdfunding is suitable for donation- and reward-based campaigns, as they reveal a high level of passion for sustainability and do not offer any monetary return.

Although in the interviews, the entrepreneurs reveal varying levels of passion for sustainability, they all prioritise social and environmental objectives on their campaign sites. This indicates the entrepreneurs' attempt to utilise the signalling effect that the commitment to sustainability can have on funders' willingness to contribute (Lehner, 2013). Although research suggests that crowdfunding of businesses with social and environmental objectives suits best the donation- and reward-based types (Belleflamme et al., 2010), our study also includes successful entrepreneurs who have used investment-based crowdfunding. Our findings thus indicate that entrepreneurs using investment-based crowdfunding can attract more funders by signalling their commitment to social and environmental objectives. However, this is purely an assumption as we do not have enough information to draw any conclusions on the effect of signalling.

4.5 Summary of our findings

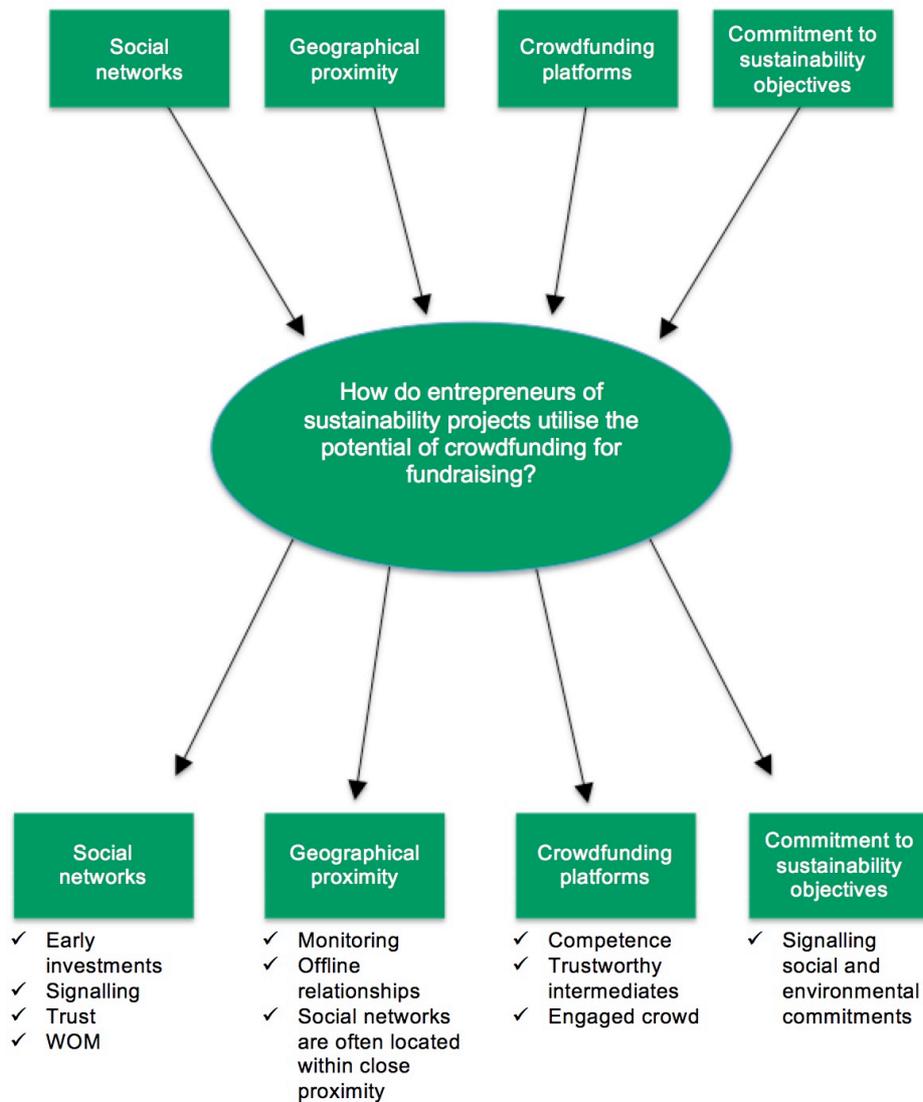


Figure 10: Summary of our findings (Authors, 2017).

Figure 3 illustrates how social networks, geographical proximity, crowdfunding platforms and commitment to sustainability objectives affect entrepreneurs' capabilities to utilise the potential of crowdfunding for fundraising. These aspects are derived from the literature review. Aligned with our findings, these have led us to provide suggestions that can answer our main research question.

5. Summary

In this chapter, we provide a summary of our findings in light of our research questions, along with our concluding remarks. Next, we consider this study's theoretical and managerial implications, as well as limitations. Lastly, we present suggestions for further research in this field.

Based on our findings, we provide suggestions on how entrepreneurs of sustainability projects can utilise the potential of crowdfunding. Four aspects can affect the potential of fundraising success, as follows:

- geographical proximity,
- social networks,
- crowdfunding platforms and
- commitment to sustainability objectives.

Although research suggests that *geographical proximity* between entrepreneurs and funders is less important on Internet-based crowdfunding platforms, our findings are ambiguous. Most of our results point to the importance of geographical proximity for attracting funders and for their willingness to invest. One reason is that geographical proximity makes it possible for funders to physically monitor the development of their investments. Although funders have access to information about the entrepreneurs and their projects through online crowdfunding platforms, it is easier to conduct due diligence and monitoring locally. Furthermore, geographical proximity allows offline relationships between entrepreneurs and funders. Our findings reveal that offline relationships can foster trust and thus increase funders' willingness to invest. Additionally, social networks are generally located in close proximity. However, our findings show that geographical proximity is less important when another form of direct connection exists between entrepreneurs and funders, such as personal ties or interest in a certain topic. In our context, the latter refers to an engaged crowd that is interested in sustainability projects.

Our findings suggest that *social networks* are important for entrepreneurs in order to receive funds. In this study, social networks refer to people with strong social ties to the entrepreneurs, such as family and close friends. Social networks are especially essential for

obtaining funding early in the campaign period. Generally, funders' propensity to invest is higher early in the campaign period when the level of information asymmetry is likely to be high. Our findings suggest that social networks are more willing to invest early in the campaign period, as the trust existing in these relationships reduces the funders' need for information prior to their investment decisions. Early investments can further signal to potential funders that the projects are worth their investments. It appears that the barrier to investment decreases with accumulated capital. Furthermore, our findings suggest that social networks can have an indirect, positive impact on the entrepreneurs' fundraising by spreading the word about the projects (WOM).

We find that *crowdfunding platforms* positively affect entrepreneurs' fundraising capabilities in three ways: by acting as trustworthy intermediates, sharing their competence and connecting entrepreneurs with an engaged crowd. Our findings indicate that the crowdfunding platform's trustworthiness can mitigate issues with asymmetric information and thus positively affect entrepreneurs' fundraising capabilities. Crowdfunding platforms can achieve this trustworthiness by implementing different mechanisms, including screenings and information disclosure about entrepreneurs and projects. Furthermore, as entrepreneurs lack experience and knowledge in crowdfunding, the competence sharing provided by the crowdfunding platform can give the entrepreneurs direction and increase the quality of their campaigns. Lastly, crowdfunding platforms that focus on sustainability projects can attract funders who are interested in the topic. This connects entrepreneurs of sustainability projects with an engaged crowd that is more likely to provide financial support.

Commitment to social and environmental objectives can portray a certain ideology and indicate a passion for sustainability. Examining a hybrid crowdfunding platform has allowed us to explore whether the levels of passion among the entrepreneurs vary among the crowdfunding types. Our findings indicate that entrepreneurs using donation- and reward-based crowdfunding are more passionate about achieving sustainability objectives compared to entrepreneurs using investment-based crowdfunding. However, all entrepreneurs emphasise their commitment to sustainability objectives on their campaign sites. This indicates that signalling commitment to sustainability objectives in crowdfunding campaigns can have a positive effect on the projects' appeal to funders.

Overall, one of the main obstacles faced by the entrepreneurs when fundraising concerns the level of information asymmetry between entrepreneurs and potential funders. Thus, to successfully utilise the potential of crowdfunding, the entrepreneurs have to signal that the project is worth the investment. We find that geographical proximity, social networks and crowdfunding platforms contribute to mitigating issues with asymmetric information. They all signal credibility and trustworthiness as their common features. Furthermore, entrepreneurs can attract funders by signalling their commitment to sustainability objectives. Our findings indicate that this commitment varies among crowdfunding types. The entrepreneurs who run donation- and reward-based campaigns show a stronger commitment to sustainability objectives, while this is not prevalent to the same extent in investment-based campaigns.

5.1 Conclusions

To answer our research questions, this study points out four aspects that are important for entrepreneurs of sustainability projects to utilise the potential of crowdfunding for fundraising. Although online crowdfunding platforms relax geographical constraints, close geographical proximity is essential for giving funders the opportunity to monitor the development of their investments and to maintain offline relationships with entrepreneurs. Furthermore, the entrepreneurs need to harness the power of their social networks, particularly to obtain funding early in the campaign period when the level of information asymmetry is likely to be high. In order for entrepreneurs to reach funders beyond their social networks, crowdfunding platforms can act as intermediates that connect entrepreneurs with a crowd. By choosing a platform focusing on sustainability, entrepreneurs can reach a crowd that is more willing to invest in sustainability projects. The platforms may also offer strategic advice that can positively affect the entrepreneurs' fundraising. Finally, signalling commitment to sustainability objectives can contribute to attracting funders. Overall, the underlying issues with information asymmetry between entrepreneurs and funders make crowdfunding challenging. Although such issues are difficult to resolve, the four aspects discussed can contribute to mitigating these challenges and increasing entrepreneurs' chances of achieving fundraising success with crowdfunding.

5.2 Theoretical implications

Crowdfunding as a phenomenon is relatively new and unexplored. To date, we have experienced a global growth of crowdfunding as an alternative source of financing for entrepreneurs and small businesses. However, research on the phenomenon is limited, and a large number of available studies focus on the supply side of crowdfunding, involving funders' motivations for participation.

We have examined the demand side of crowdfunding, involving entrepreneurs and small businesses requesting financing. To our best knowledge, few studies have investigated the combination of crowdfunding and sustainability projects. Our study therefore makes a valuable contribution to enrich the literature on the topic and will hopefully increase the understanding of how entrepreneurs of sustainability projects can use crowdfunding.

5.3 Managerial implications

The scope of crowdfunding is increasing, with the potential of becoming an important source of financing for entrepreneurs and small businesses. Our findings indicate that signalling commitment to social and environmental objectives can positively impact fundraising. We believe that it is important for entrepreneurs of such projects to be conscious of these effects, in addition to the other aspects that our study finds important for fundraising success.

This study has implications for *entrepreneurs* of sustainability projects in the sense that they gain a better understanding of how to raise funds successfully with crowdfunding. Our findings show that they need to harness their social networks as important sources of funding. Due to the level of information asymmetry, which is especially present at the outset of a campaign, the entrepreneurs should rely on the trusting relationships within their social networks. Furthermore, they ought to understand the role played by crowdfunding platforms as trustworthy intermediates between entrepreneurs and funders. Our findings favour using niche platforms that focus on sustainability projects, as such platforms can connect entrepreneurs with an engaged crowd that is interested in investing in sustainability projects. Although generic platforms that serve multiple categories can reach a large funder base,

entrepreneurs of sustainability projects will face tougher competition on such platforms due to the usually higher number of projects there.

Our findings also have implications for *crowdfunding platforms*. They can use this information to improve their business models and gain insights into which efforts are needed to increase their competitiveness. These involve ideas on how they can appeal to entrepreneurs and funders, in addition to how they can increase the number of successful projects. Three aspects appear prominent among our findings in this regard. First, as entrepreneurs lack experience and underestimate the work on crowdfunding, they largely depend on the platforms' services and competence sharing to succeed in crowdfunding. Second, if the platform serves a niche market (in our case, sustainability), entrepreneurs can reach an engaged crowd with a high willingness to support the projects. Third, considering the importance of social networks for fundraising success, platforms can facilitate entrepreneurs' improved use of these networks.

5.4 Limitations

We have tried our best to tackle potential issues associated with reliability and validity, which could impact the quality of our research paper. However, similar to all research, our study has certain limitations. By conducting a qualitative study, potential biases could arise and affect our results. These biases have been discussed in the methodology chapter, along with actions to avoid or at least limit them. Despite our best efforts to achieve a high degree of reliability and validity, we cannot claim with certainty that we have been unaffected by biases or have not influenced the informants in any way; if so, it could have caused biased the results.

Our study consists of a sample of six interviews. The informants' responses involve their personal opinions; thus, it is difficult to say whether our study's results actually represent reality. However, the interview with the industry expert, Ronald Kleverlaan, has enabled us to achieve some sort of validation by comparing his insights into the crowdfunding industry as a whole with the entrepreneurs' opinions. Additionally, it is difficult to determine whether our results are generalisable to other countries and settings, as we conducted interviews with local entrepreneurs in the Netherlands.

Due to time constraints in completing our master thesis, we had to set some restrictions. In our study, we have focused on the perspectives of the entrepreneurs of sustainability projects to explore implications for their fundraising capabilities. The entrepreneurs form one part of a two-sided market where the crowdfunding platform functions as an intermediate. This complicates the sole focus on entrepreneurs because funders, the platform and entrepreneurs closely affect one another. As a result, our research does not necessarily portray the entire picture, and we have possibly missed important aspects.

Finally, our study has concentrated on successful entrepreneurs to gain a better understanding of how they can succeed in crowdfunding. However, we could have involved entrepreneurs who have failed in their crowdfunding campaigns as this sample could have contributed to more diverse results.

5.5 Future research

For future research, we suggest combining qualitative analysis with quantitative research to find out if it is possible to generalise the results. To achieve a higher degree of generalisation, future research should include a richer dataset with more informants. A more comprehensive study with an extensive dataset could probably uncover additional interesting topics that might contribute important insights into the crowdfunding industry.

One possible research avenue would be to expand the scope of this thesis by including the funders' perspectives. These could generate deeper knowledge of how the entrepreneurs of sustainability projects could attract more funders. Furthermore, researchers could extend our study's scope to other geographical areas. Norway stands out as an interesting country, and it would be worthwhile to conduct similar research there to acquire a broader perspective. Since Norway and the Netherlands have experienced different developments in crowdfunding, it could be significant to consider to what extent the entrepreneurs' responses might differ, depending on the different contexts.

Another interesting topic for future research is to test the effect of signalling with respect to the entrepreneurs' social and environmental objectives. As most of the existing research

suggests that reward- or donation-based crowdfunding types are the most suitable for sustainability projects, it would be noteworthy to examine in more depth how investment-based crowdfunding (equity and loan) could benefit entrepreneurs of sustainability projects in terms of fundraising. We believe that exploring how these signalling effects differ among crowdfunding types could uncover interesting outcomes.

Finally, we hope that this study could lay the foundation for further theory development and research in the areas of sustainability and crowdfunding. Particularly, we hope that our results could contribute to the research project, Coolcrowd, in which we have participated. Our findings offer vital lessons that might be transferable to the Norwegian context, where the development of crowdfunding is still at a modest level.

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7. Appendices

7.1 Appendix A: Interview guide for entrepreneurs

1. Can you start telling us about the story of your company?
 - a. What is your role?
 - b. How do you identify the company with sustainability?
2. How did you get familiar with crowdfunding?
3. Can you tell us about your experience with crowdfunding?
 - a. Positive experience?
 - b. Any challenges?
 - c. Outcomes?
 - d. Would you have done something different? What is your take-away learning?
4. Who were involved in the crowdfunding process?
 - a. Did you involve your social network?
 - i. For campaign creation?
 - ii. During the campaign (boosting)?
 - b. Who were your funders?
 - i. Distant or local funders?
5. How was the process of choosing a platform?
 - a. Which factors did you consider in your evaluation process?
 - b. Did you put much effort in choosing?
6. Why did you choose platform Green to launch your campaign?
 - a. Local versus global
 - b. Sustainability (ideology)
 - c. Size
 - d. Hybrid
7. How did you experience platform Green's requirements to disclose information about your company?
8. How was the process of applying to launch a campaign on platform Green?
 - a. Did you feel that the requirements to get accepted were strict?

9. What could platform Green have done to become more attractive to you?
10. How does platform Green fit your overall marketing strategy?
 - a. Image
 - b. Congruency

7.2 Appendix B: Interview guide for Ronald Kleverlaan

1. Can you start telling us about the story of your company, as the co-founder of CrowdfundingHub?
 - a. Why did you start this business?
 - b. What are your main services?
2. How does CrowdfundingHub cooperate with other European countries?
3. How does CrowdfundingHub affect the emergence of crowdfunding, especially in the Netherlands?

We read on your website that you offer a service called QuickScan, where you help start-up businesses and SMEs to evaluate whether crowdfunding can be a suitable financing option and provide counselling on strategies to go through with it. Regarding your experience from conducting this service, we have some questions regarding the entrepreneurs.

4. Can you tell us about an interesting case where you have been involved recently (e.g., the last month or year)?
 - a. How did you help the entrepreneur?
 - b. How will you describe the process of preparation for the launch of the campaign?
 - c. How was the process of choosing an optimal platform?
 - d. Which factors were of importance in the choice of platform? (niche/local/size/price/community)
 - e. How much effort was put in choosing?

As we are studying entrepreneurs with sustainable business models in particular, we are interested in knowing more about your experience with this.

5. Have you consulted entrepreneurs with sustainable business models? Can you tell us about a case?
 - a. What type of services were you providing for the entrepreneur in this case?

- b. Considering that these entrepreneurs are focusing on a niche market (i.e., sustainability), how will you describe the process of choosing a crowdfunding platform?
- c. Which factors were of importance in the choice of platform? (niche/local/size)
- d. How much effort was put in choosing?

As we have seen, the growth of crowdfunding as an alternative financing method has grown rapidly in recent years. This has led to the development of several different crowdfunding platforms online. We find this very interesting and would like to know more about how the competitive environment among platforms has emerged.

- 6. How will you describe the pan-European crowdfunding ecosystem?
 - a. How is it fragmented?
- 7. How will you describe the competitive environment of platforms in the Netherlands?
- 8. How do you think the platforms can strengthen their competitive position? (to attract entrepreneurs and capital)
- 9. How will you describe the different segments in this market?
 - a. Are there niche markets?
- 10. Some platforms provide screenings to ensure high-quality and reliable campaigns.
 - a. Which implications do you think that screenings have?
 - b. Which variations do you see in platforms' comprehensiveness of screenings?
 - i. How does this affect platforms' attractiveness to entrepreneurs?
- 11. Lastly, how do you think the choice of a specific crowdfunding platform is part of a marketing strategy for the entrepreneurs?
 - a. Enforcing the entrepreneur's company image?