

# The Impact of Crowdfunding on Entrepreneurial Value Creation: Differences between Social, Cultural and Commercial-Oriented Projects

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**Abstract:** The aim of this study is to analyse the impact of crowdfunding in the development of innovative projects related to entrepreneurial value creation in Portugal. Although the literature on crowdfunding is growing, our knowledge in this area is still incipient regarding its impacts on the value creation and on the differences between projects of different nature, namely between social-oriented, cultural-oriented and business/commercial-oriented projects. In this analysis, the divide between social- cultural- and commercial-oriented projects is considered. The empirical research covered the identification and characterisation of the oldest crowdfunding platform operating in Portugal and an in-depth analysis of the entrepreneurial projects successfully funded from the creation of the platforms until 31st December 2016. The results from this study show that the concept of crowdfunding is still little explored in the country, specifically for entrepreneurial commercial-oriented value creation. They also highlight that commercial-oriented projects tend to exceed the target investment in a more marked way compared to the other types of projects.

**Keywords:** Crowdfunding, social-oriented projects, commercial-oriented projects, cultural oriented projects.

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## 1. Introduction

The concept of crowdfunding has evolved from the broader idea of crowdsourcing, i.e. a decentralized problem-solving and production model, where the online crowd is used to obtain services, ideas, feedback and solutions to develop corporate activities (Howe 2008; Kleeman et al. 2008; Belleflamme et al. 2013).

In the particular case of crowdfunding, the objective is to obtain financing for a project or a venture without resorting to standard financial intermediaries by using online communities, where each individual can participate with a small contribution of the total funding amount (Belleflamme et al. 2013).

Although some authors consider crowdfunding as a relatively new concept (Banhatti 2016; Golić 2014), others recognize that the notion of crowdfunding is not new, going back, at least, to the 19th century (Attuel-Mendes 2014; Beck et al. 2016). Nonetheless this divide, scholars agree on the fact that its usage has intensified in the past ten years or so, namely after the signature of the JOBS Act (Jumpstart Our Business Startup), in 2012 in the USA, that regulates equity-based crowdfunding. Crowdfunding has become effective and available worldwide, and it is increasing rapidly in the last years (Banhatti 2016).

The literature on crowdfunding has also increased in the last years, both in terms of published academic papers and in reports by different types of agencies and associations.

Scholars show that this type of funding can fill the gap in accessing to capital in the early stage creation of an innovative project, when capital needs are higher and traditional funding sources are less receptive (Deffains-Crapsky & Sudolska 2014; Manchanda & Muralidharan 2014).

Despite the growth of knowledge on the process and types of crowdfunding, as well on its role in financing new ideas and projects, there is still a need to go deeper in the understanding of crowdfunding impact on the value creation and on the differences between projects of different nature, namely between social-oriented, cultural-oriented and business/commercial-oriented projects (Bruton et al. 2015; Moritz & Block 2016).

This paper targets this gap, by studying the use of a Portuguese crowdfunding platform – PPL. It analysis the successful campaigns until 2016 and assesses differences between social-oriented, cultural-oriented and commercial-oriented projects.

## **2. Conceptual background**

### **2.1 Crowdfunding: concept and types**

It is possible to find several definitions of crowdfunding in the literature. Golić (2014) considers that crowdfunding is a way of raising money from a quite large number of investors via the Internet and using an open call, so that the entrepreneurs can collect funds to sponsor their projects. Lehner (2013) defines crowdfunding as a procedure of supporting new and original projects. Hooghiemstra and De Buysere (2016: 136) consider that “crowdfunding can be defined as a collective effort from a large number of individuals, who support individual projects and businesses with small contributions initiated by entrepreneurs (SMEs) or organisations”.

Medeiros (2015) calls our attention to the fact that the crowdfunding definition can change according to two different sides – the supporter and the promoter. Ordanini et al. (2011) focus on crowd side, by considering that crowdfunding can be described as a phenomenon, in which diverse consumers gather, often by the Internet, in order to finance other people and organisations’ projects. By the other hand, Belleflame et al. (2014: 588) highlight the promoters’ side, considering that “crowdfunding involves an open call, mostly through the Internet, for the provision of financial resources either in the form of donation or in exchange for the future product or some form of reward to support initiatives for specific purposes”.

Regardless of these differences, scholars recognize the growing interest in this kind of financing, as an alternative to the more common sources of finance (Gierczak et al. 2016; Moritz & Block 2016). For example, Banhatti (2016) agrees that crowdfunding is growing as a powerful instrument used by common people to find a different way of sponsoring their new and original ventures outside standard systems. To Mollick and Robb (2016) crowdfunding enables access to financial resources to exploit and disseminate innovative projects to everyone.

Relatively to crowdfunding types, multiple contributions have emerged. Gierczak et al. (2016) consider that crowdfunding types rely on some kind of benefit provided for the sponsors’ finance. In fact, some authors underline that one of the most important motivations in crowdfunding is the expected returns that crowdfunders get in exchange for their finance (Hemer 2011; Thüridl & Kamleitner 2016). These returns can be of different types. De Buyser et al. (2012) distinguish three types of returns: social, financial and material.

On the other hand, Hemer (2011) identifies seven types: donation, sponsoring, pre-ordering, membership fees, crediting, lending, and profit-sharing.

According to the type of return, it is possible to classify the type of crowdfunding. Lehner et al. (2015) stress that crowdfunding varies from a simple way of pre-financing to full grown debt or equity investments although they are usually small guarantees that can developed into exorbitant amount of money. Belleflamme et al. (2014) establish two poles: pre-ordering and profit-sharing. However, most authors tend to distinguish four type of crowdfunding: donation-based (crowddonation), reward-based (subsuming rewards and pre-ordering, usually the rewards are a tangible product related to the campaign), capital-based (equity crowdfunding or crowdfunding) and credit-debt-based (crowdlending) (Belleflamme et al., 2015; De Buyser et al., 2012; Gajda & Walton, 2013). Recently, Banhatti (2016) not only considers the existence of these four main models but also highlights the emergence of hybrid models, which combine basic models. In most cases, crowdfunding platforms tend to rely on a single model, but some platforms exploit several models. The most common combination is the reward and donation models on a single platform. Scholars tend to agree that reward-based crowdfunding is the most common, and the most famous platforms, like Kickstarter and IndieGogo, belong to this type.

### **2.2 Crowdfunding as an instrument to fund innovative projects**

Business ideas with a particularly innovative nature have difficulties in access to funding, and therefore face a financing gap, which is due mainly to the existence of market failures. These failures are related to the existence of information asymmetry that complicates the measurement of risk, both for the projects promoters and for the project. Issues of adverse selection and moral hazard arise, which normally represent a greater difficulty in obtaining funding and/or the payment of higher interest rates (Hall & Lerner, 2010). This gap is particularly wide in the case of SMEs (Müller & Zimmermann 2006).

Crowdfunding is a possible solution for reducing this gap. Deffains-Crapsky and Sudolska (2014) found a positive relationship between innovation and crowdfunding. The authors put the emphasis on the funding of radical innovations, which, due to the high degree of uncertainty and the high costs of R&D, face difficulties in financing through traditional financial intermediaries. The authors suggest that the capital-based crowdfunding could be used in a consumer-investor perspective, where the "crowdfunders" analyse the project first in a consumer optics and then decide to invest or not, giving a prediction on the possibility of success of the project. This concept would help to reduce the risk of investment, due to the degree of acceptance that the project could get in the "crowd" and attract future investors.

Manchanda and Muralidharan (2014) argue that enterprises in the start-up phase, when the capital requirements are greater, can largely benefit from crowdfunding. They consider that venture capital institutions, which are very selective, cease to invest in many innovative ideas. Venture capitalist can also profit from the growth of crowdfunding, notably in terms of finding promising start-ups and of accessing all the information that the "crowd" might provide. These authors add that some venture capitalists already invest in crowdfunding platforms or create their own, concluding that the two forms of funding, in the future, will "go hand in hand".

Also Agrawal et al. (2013) claim that crowdfunding is causing a change in the way of raising capital and increases the total amount of funding available for new innovative ventures. As an example of success, they refer to the innovative design of the "Pebble" Watch, which through the crowdfunding managed to raise in just 2 hours 100,000 dollars and closed the campaign 37 days later with more than 10 million dollars, collected from almost 70 thousand people, being considered one of the major successes in the history of Kickstarter.

The difficulty of obtaining funding for innovative projects tends to be higher when the project has a social nature. As social projects prioritize social change above private wealth creation, this can create tension in the application of resources: being economically viable while in pursuit of a social mission can impose tension on the available resources (Doherty et al. 2014). Therefore, access to funding can be a higher challenge, when compared to business/commercial-oriented projects.

Projects targeting social innovation envisage "novel ideas that create value which are social in both their ends and their means" (Murray et al. 2010: 3). Social innovations can be defined as new products, services and models that have been developed to meet social needs (Mulgan et al. 2007). These projects can have a major impact to communities and societies, by adopting business models to offer creative solutions to complex and persistent social problems (Zahra et al. 2009).

Thus, social-oriented project are often related to social entrepreneurship or social enterprises. Even though there is no single agreed upon definition of social entrepreneurship, one key ingredient is present in all of the definitions: the striving for societal goals (Austin et al. 2006). Social entrepreneurs have an ambition that goes beyond pure economic reasoning. They look for societal value-added and combine societal goals with entrepreneurial attitude.

Still the benefits of crowdfunding go beyond the access to financial resources, and include aspects like: use the campaign as a marketing tool, attract attention to the project even after the campaign's conclusion, obtain genuine feedback on the idea and improve it during the process, advertise "niche ideas", and turn investors into loyal clients (Manchanda & Muralidharan 2014).

### **2.3 Factors affecting the success of a crowdfunding campaign**

Crowdfunding platforms are online sites linking project promoters/fundraisers and project supporters/funders. The promoters are those who, through a campaign, intend to obtain funding and the funders are those who invest financial resources in the project (Gerber & Hui 2013). The fact that any person or entity can easily become a funder but specially a promoter has allowed the rapid mediatisation and growing of this type of funding.

To obtain the necessary funding, and therefore to have a successful campaign, the promoters, through the platforms, publish the idea/project/experience, describing the objective, a short history, how the investment will be applied, among other information. In this sense, the campaigns made available by promoters are similar to products/services/experiences. In the case of reward-based crowdfunding, the campaign is

successful when it reaches the goal. Usually reward-based platforms use an “all-or-nothing” mechanism, meaning that the promoter must pay back all the money if the campaign fails, but the total funding can exceed the initial goal.

Mollick (2014) identifies some success factors of crowdfunding campaigns based on the analysis of donations and reward platforms. The results of the study indicate that the quality, the geography and meeting deadlines are decisive factors of success, as well as the social relations of the promoters. The author also considers that the project’s innovative component of value creation will increase the interest of investors, to the extent that this represents a quality factor. In this way, innovative projects are most likely to be successful in attracting the interest of the crowd and in obtaining financing.

Previous studies have found mixed evidence regarding the relation between the number of supporters and the success of the project. While Kim et al. (2015) found no significant relation between the two variables, Robertson and Wooster (2015) found a negative impact of supporters in the first day of the campaign on its success. This last study also found a positive impact of the number of Facebook shares on the campaign success.

Medeiros (2015) identifies the success factors of crowdfunding campaigns in Portugal, stressing the role of campaign quality, platforms effort and supporters’ encouragement as essential to achieve the success. Then, based on information available in platforms, the author lists the following factors as the means to guarantee a well-succeeded campaign: transparency, divulgation, presentation, enthusiasm, monitoring, personalization and counterparts.

### **3. Empirical setting and data**

#### **3.1 Crowdfunding in Portugal**

Crowdfunding arrived to Portugal in 2011, through the creation of four different platforms: PPL, Massivemov, Redebiz and Zarpante. In 2012, three new platforms have appeared in the country: Novo Banco Crowdfunding, Olmo, and Crowdfunding Networks. The difficulty faced by firms in getting initial funding for projects (namely start-ups) and the financial crisis may have played a crucial role to crowdfunding market expansion (Medeiros, 2015; Brüntje & Gajda, 2016).

Notwithstanding the creation of several platforms in 2011 and 2012, crowdfunding did not grow in Portugal as fast as in other countries and some platforms cessed their activity. The PPL and Novo Banco platforms continue to operate (see Table 1) and its activity is similar to the large global platforms like Kickstarter or Indiegogo, based in the reward-type of crowdfunding. Novo Banco is only dedicated to social projects and covers reward and donation types.

More recently, other types of crowdfunding platforms have been created. One of these platforms is Raize that, despite the start of activity in 2014, only recently was noted by the amount raised in campaigns - more than 11 million euros. Based on Crowdinvesting, more specifically lending crowdfunding, Raize is dedicated to loan to SMEs and to start-ups. Companies request a financial loan of a specified amount and investors present proposals for partial or total loans with associated interest rates. Companies can accept or reject the investors’ proposals.

Besides the Raize platform, the Housers platform is also active in Portugal, dedicated to the Crowdinvesting, but in the property (Equity) type. It has begun its activity in Spain and currently it is also present in Italy.

Housers is devoted to investing in real estate by means of lease, construction, reconstruction or works of art. In this case, the financiers acquire property titles corresponding to a part thereof and depending on the purpose of the project. The investor obtains the monthly income (lease), at the end of the period (in the sale of the property) or even for the sale of the titles.

**Table 1:** Active Crowdfunding platforms in Portugal

Platform	Starting year	Type	Amount raised (€)	Successful Campaigns	Success rate
PPL	2011	Reward	2 647 531	810	45%
Novo Banco	2012	Donation & Reward	433 000	104	59%

Platform	Starting year	Type	Amount raised (€)	Successful Campaigns	Success rate
Raize	2014	Loan	11 213 000	578	-
Housers a)	2016	Property	42 628 255	103	-

a) Housers ' data reflects the entire activity spanning the 3 countries where it operates (Portugal, Spain and Italy)

The crowdfunding activity (collaborative funding) only began to be regulated in Portugal in 2015 (Pereira, 2016). In 2013, the Socialist Party formulated the first project approving the juridical regime of crowdfunding in Portugal. Two years later, the Law No. 102/2015 (August 2015) was published regulating collaborative financing. However, crowdfunding based on capital or loan was only regulated in 2016 when, such as specified by Law No. 102/2015, the Portuguese Securities Market Commission (CMVM) approved the regulation of legal regime of crowdfunding (Regulation CMVM No. 1/2016, signed on 5th May 2016 and published in Diário da República on 25th May 2016).

Due to the growing activity in Portugal, the Portuguese Government felt the need to approve the new Law No. 3/2018 on collaborative financing, amending Law No. 102/2015. This new law, in addition to clearly dividing the Crowdsponsoring from the Crowdinvesting, adds a sanctioning regime to the activity of crowdfunding.

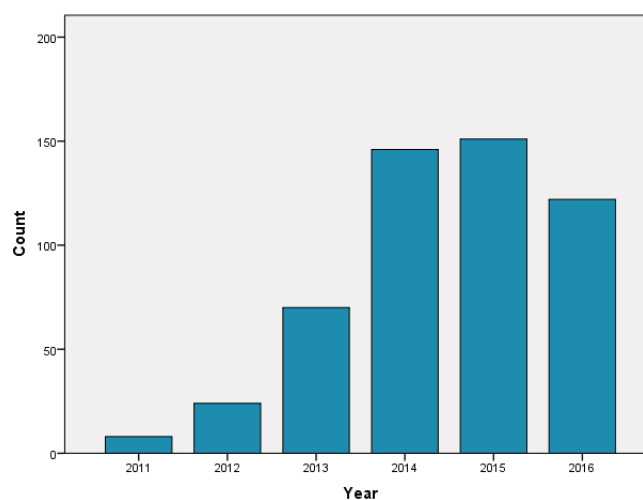
Previously, all crowdfunding activity was regulated and supervised by CMVM but with this new law, Crowdfunding's activities regarding donations and rewards become Regulated by the Food and Economic Security Authority (ASAE) and the activities associated with capital and loan continue to be regulated by the CMVM. The sanctioning regime strengthening the image of the Crowdfunding making it more regulated, more reliable and controlled. But, from the point of view of some experts and politicians, it removes the practical and simple image that characterized the Crowdfunding making it a more bureaucratic process.

### 3.2 Data

This research analyses the successful campaigns of the PPL platform that targets the reward-based type of crowdfunding. This platform was chosen because it encompasses both commercial, cultural and social projects, enabling to uncover differences between them. It is also the oldest and one of the most dynamic platforms in Portugal. Since 2011, the platform has raised more than 2.6 million euros, with a success rate of 45%. The platform uses the “all-or-nothing” mechanism.

The study uses data extracted from the PPL in 31th March 2017. At that time, since 2011, 1486 campaigns were launched and 623 were successfully completed. In the analysis, we only consider these successful campaigns, designated as projects hereafter. Figure 1 shows the evolution of the number of projects.

**Figure 1:** Evolution of the number of projects



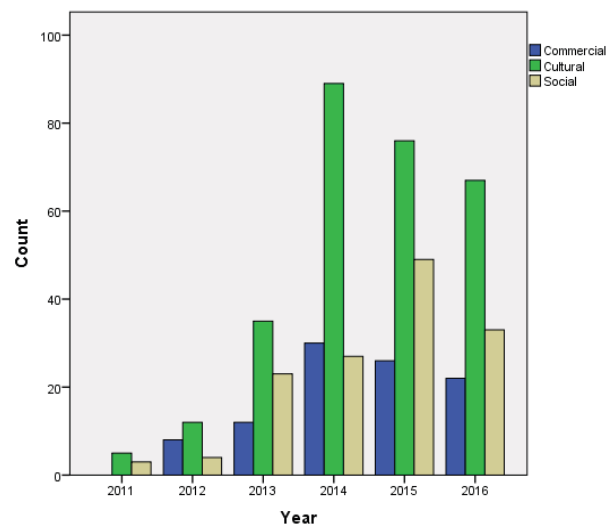
The projects were classified according to their nature. In order to perform this classification the full description of each project was analysed and three categories were created: social, commercial and cultural projects. In this process, 102 projects were excluded because they could not be considered in one of these three categories – they fit better in the donation category and were targeting support for an individual cause.

The classification of the projects obeyed the following criteria:

- Social projects – projects focusing on collective action and on the solution of social problems (poverty, social exclusion, citizenship, human rights, rehabilitation public spaces, education, health, animal protection); 139 projects were classified in this category.
- Commercial projects – projects focusing the launching of products or services, or raising investments for commercial activities (e.g. equipment modernization); 98 projects were classified in this category.
- Cultural projects – projects focusing the promotion of cultural events and products, including books, exhibitions and shows; 284 projects were classified in this category.

Figure 2 shows the evolution of the projects by type. It is possible to see that cultural projects predominate in every year. It is also possible to see that in 2014 commercial projects were more frequent than social ones.

**Figure 2:** Evolution of the projects by type



#### 4. Results

As mention above, the paper sets out to analyse the successful crowdfunding campaigns and to assess differences between social-oriented, cultural-oriented and commercial oriented projects. In order to analyse the differences, several variables, related to the success of the campaign, were considered: the target investment in euros (goal), the raised investment in euros, the number of backers (investors), the average investment in euros (investment per investor), the target fulfilment (total raised divided by target times 100), the number of comments, the number of shared images and the number of views. Table 2 shows the descriptive statistics of these variables.

**Table 2:** Descriptive statistics

	Minimum	Maximum	Mean	Std. Deviation
Target	500	25000	2336,11	2264,96
Raised	500	25165	2669,14	2642,29
Backers	1	1122	67,26	76,21
Average Investment	4	1000	54,18	64,21
Target fulfilment	100,00	415,75	116,5969	32,59
Comments	0	73	2,01	5,15
Images	1	10	5,49	2,88
Views	934	45876	6404,67	5368,31

There is a positive and significant correlation (Table 3) between the number of views of the campaign and the investment (both target and raised) and the number of investors. This indicates that the most successful projects have more views in the platform, and therefore that promoters need to invest in the visibility of the campaign. Comments and images seem to have a lower correlation to those success variables.

**Table 3:** Pearson correlation coefficients

	Target	Raised	Backers	Average Investment	Target Fulfilment	Comments	Images	Views
Target	1	,942**	,437**	,228**	-,074	,076	,163**	,412**
Raised	,942**	1	,528**	,186**	,165**	,102*	,123**	,467**
Backers	,437**	,528**	1	-,200**	,292**	,208**	,040	,591**
Average invest	,228**	,186**	-,200**	1	-,127**	-,065	,102*	-,119**
Target fulfilment	-,074	,165**	,292**	-,127**	1	,098*	-,090*	,193**
Comments	,076	,102*	,208**	-,065	,098*	1	,036	,404**
Images	,163**	,123**	,040	,102*	-,090*	,036	1	,064
Views	,412**	,467**	,591**	-,119**	,193**	,404**	,064	1

\*\* . Correlation is significant at the 0.01 level (2-tailed).

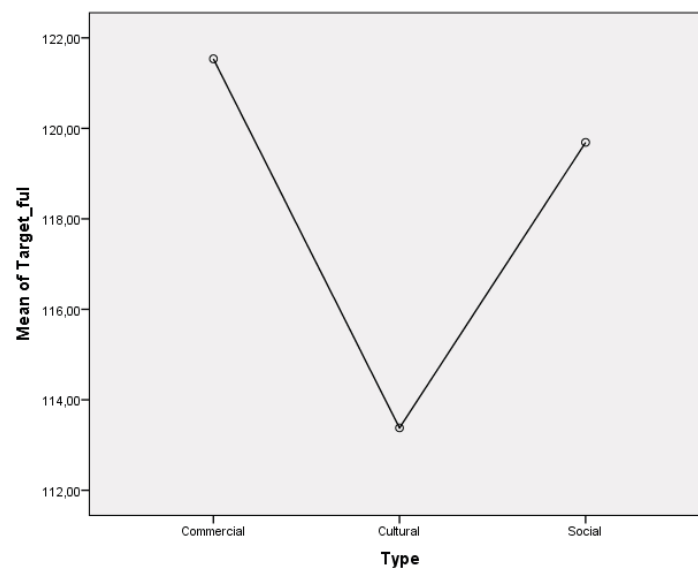
\* . Correlation is significant at the 0.05 level (2-tailed).

In order to test the differences between the types of projects (social, cultural, commercial) we used the ANOVA analysis. The results of ANOVA are reported in Table 4. It is possible to conclude that significant differences between groups were only present in the variable target fulfilment. Commercial projects exhibit the higher investment fulfilment ratio, while cultural projects exhibit the lower (Figure 3).

**Table 4:** ANOVA analysis

		Sum of Squares	df	Mean Square	F	Sig.
Target	Between Groups	1020901,48	2	510450,74	,099	,906
	Within Groups	2666598891,00	518	5147874,30		
	Total	2667619792,00	520			
Raised	Between Groups	509633,39	2	254816,69	,036	,964
	Within Groups	3629971410,00	518	7007666,81		
	Total	3630481043,00	520			
Backers	Between Groups	3150,89	2	1575,44	,270	,763
	Within Groups	3017322,64	518	5824,94		
	Total	3020473,53	520			
Average Investment	Between Groups	15661,88	2	7830,94	1,906	,150
	Within Groups	2127909,68	518	4107,93		
	Total	2143571,57	520			
Target fulfilment	Between Groups	6663,57	2	3331,78	3,162	,043
	Within Groups	545779,92	518	1053,62		
	Total	552443,49	520			
Comments	Between Groups	17,21	2	8,60	,324	,724
	Within Groups	13779,77	518	26,60		
	Total	13796,98	520			
Images	Between Groups	10,97	2	5,48	,662	,516
	Within Groups	4241,69	512	8,28		
	Total	4252,66	514			
Views	Between Groups	70155601,04	2	35077800,52	1,218	,297
	Within Groups	14915566040,00	518	28794529,04		
	Total	14985721640,00	520			



**Figure 3:** ANOVA Mean Plot

## 5. Conclusion

Crowdfunding is a new and complementary form to finance innovative projects, particularly for project start-up, that otherwise would not be able to raise the necessary capital. The paper sets out to analyse the successful crowdfunding campaigns and to assess differences between social-oriented, cultural-oriented and commercial-oriented projects.

Results show that most successful projects have a cultural or a social oriented nature. This can be related with the fact that we are considering a reward-based type of crowdfunding and with the still incipient use of crowdfunding to finance commercial oriented innovations in Portugal (Medeiros, 2015).

Our results also show that the number of views achieved by a campaign is significantly and positively related to the success of the campaign, being the correlation stronger than the number of comments and the number of images. This suggests that is vital to spread the word to a vast public in order to have a successful campaign, regardless of the type of project.

Despite the different nature and challenges face by the three different type of projects – commercial, social and cultural – when it comes to the crowdfunding campaign success this research only found significant differences in terms of the investment fulfilment ratio: commercial-oriented tend to exceed the target investment in a more marked way compared to the other types of project, namely the cultural-oriented.

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