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The Formation and Interplay of Social Capital in Crowd Funded Social Ventures.

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Abstract

The multi-leveled processes taking place in Crowdfunding, when tapping a large heterogeneous crowd for resources, and the often fundamentally different intentions of individual crowd members in the case of highly desirable social ventures with little prospect for economic gains, may lead to a different logic and approach to how entrepreneurship develops. Using this under-institutionalised sphere as both, context and subject, the author seeks evidence and a new understanding of entrepreneurial routes by using the sociological perspectives of Bourdieus' four forms of capital as a lens on 36 cases of social ventures. In the cases, opportunity recognition, formation and exploitation could not be distinguished as separate processes. Crowdfunding and sourcing helps form the actual opportunity and disperse information at the same time. In addition, the 'nexus' of opportunity and entrepreneur is breached in Crowdfunding of social causes through the constant exchange of ideas with the crowd, leading to norm-value pairs between the funders and the entrepreneurs. Issues of identification and control are thus not based upon any formal relationship but based on perceived legitimization and offered democratic participation leading to the transformation of social capital into economic capital. Success is based upon the social capital of the entrepreneurial teams, yet the actual resource exchange and transformation into economic capital is highly moderated by cultural and symbolic capital that is being built up through the process.

Keywords: Crowdfunding, social entrepreneurship, social capital, Bourdieu, opportunity

Introduction

Crowdfunding (CF) denominates a different form of financing of young ventures. Instead of tapping traditional sources such as banks, business angels or venture capital funds, innovative entrepreneurs (including teams) present their ideas on web and multi-media based platforms (acting as intermediaries), and subsequently collect money from a highly dispersed, heterogeneous and large-numbered crowd (Agrawal, Catalini, & Goldfarb, 2011; Lehner, 2013; Mitra, 2012; Stemler, 2013). CF is more and more seen as alternative to traditional forms of funding and financing, especially in the early stages when risk outweighs potential gains for banks and venture capital funds. The contributions from the crowd range from simple donations or pre-payments for later shipment when 'ready', to more formal debt and equity investments. Individually, all these are always relatively small compared to traditional investment forms, but can pile up to large amounts in sum (Lehner, 2013; Schwienbacher & Larralde, 2010).

The complexity and implied regulations grow with the different forms of financing as mentioned above. While it is comparatively easy to tap the crowd for pre-payments, it can become a legal 'nightmare' to offer equity shares to the crowd due to various rules and regulations stemming from the 'formal', highly regulated capital markets. Recent legislative changes seem to address some of these issues and we can already see a 2.7 Billion USD market in Crowdfunding (Massolution, 2013; Parrino & Romeo, 2012; Stemler, 2013).

However, little is known about the field of CF from an academic perspective. Besides several studies from specialised perspectives, such as the record industry, very few articles address the whole phenomenon. Lehner (2013) presents a first summary of existing literature on Crowdfunding and proposes a schema and a model to guide and structure future research efforts.

Early evidence from projects seeking Crowdfunding seems puzzling. Apparently comparable innovative products and services, offered on the same platform and with quite similar representations often develop in very different directions, some to success, and some to failure when it comes to reaching their funding goals. The size of the initial networks of the entrepreneurs alone seems inefficient as predictor, and even well known lead-figures fail in reaching their funding targets. So it appears there must be something underneath, moderating the resource exchange in the corresponding networks. Early evidence points to a complex interplay between the various participants in the closer and more distant networks around the entrepreneurs when it comes to transforming social capital into economic capital. As Frydrich, Bock, and Kinder (2014) examine, the legitimacy of a venture, accumulated through interaction and co-creation between the founders and the crowd, can be seen as a strong signal ,a symbol in the language of Bourdieu (Bourdieu, 1989), and acts as catalyst. Researchers agree that Crowdfunding still remains a largely under-institutionalised and contested sphere (Mollick, 2014), demanding a closer inductive examination of the fundamental processes on all levels.

This paper thus intends to further our understanding of the sociological processes taking place when entrepreneurs seek funding from the crowd for social ventures, in acknowledging the crowd as both, context and subject. It does so by applying Bourdieu's four forms of capital as lens to structure and derive insights into how social capital can be leveraged in order to raise economic capital for social impacts.

Large Scale Stakeholders, Alliances and Sociological Theory

In traditional investment theory, discovering (or creating) an opportunity may result in a potent and not easy to imitate asset (Barney, Ketchen, & Wright, 2011; Ndofor, Sirmon, & He, 2011) that can lead to a competitive advantage (Ndofor et al., 2011; Sirmon, Hitt, Ireland, & Gilbert, 2010). Necessary alliances for its exploitation are tagged with high transaction costs and therefore should be limited (Foss & Foss, 2008).

The often fundamentally different expectations of individual crowd members in the case of highly desirable social ventures with little economic gain (Lehner, 2013; Lehner & Kaniskas, 2012) may *well lead to a different business logic*. In such ventures, alliances are a pre-requisite and competition is often not an issue but welcomed as a means of scaling in social entrepreneurship.

Engaging with the crowd is not an easy task. Not only must an individual member of the crowd identify the same opportunity as the fund seeking entrepreneur by sub-par means - for example through CF platform representations relying heavily on, at best, questionable signalling (Reuber & Fischer, 2009) - but in the next steps, these individuals need to subsequently disperse and advertise (by putting their own reputation at stake) the idea to others in the crowd in order to finally get the business successfully funded. This leads to a large number of stakeholders, and in some Crowdfunding cases the difference between shareholders and stakeholders becomes blurred and so do the necessary support structures and corporate governance processes. This necessity of recognizing and simultaneously advertising an opportunity in CF is partly aggravated, and perhaps also based on individual limitations on investable funds, as members of the crowd typically can and will only invest very small sums, partly due to risk aversion and on structural limitations concerning allowance of single investments, as set up by either the business or by rules and regulations (Stemler, 2013).

The small invested amounts lead to a relatively low risk-equivalent of the individuals (regardless of the total risk) and a high number of involved investors. Therefore, as risk seems to be one important factor when it comes to opportunity exploitation (Keh, Foo, & Lim, 2002), this may change the way risky opportunities are dealt with in Crowdfunding.

These structural impacts and the speciality of 'rules-in-flux' due to the necessity of legal adaption for the unprecedented phenomenon of international Crowdfunding may also lead to new ways of dealing with opportunities in crowd funded ventures (Hmieleski & Baron, 2008).

Acknowledging the importance of structure, Dorado and Ventresca (2013) explore, what they call 'crescive' entrepreneurship in the context of complex social problems. While looking at the institutional conditions which frame the likelihood of entrepreneurial engagement they identify two different sets of conditions: those that can stir up actors' motivations to engage and those that can alter their decision making logic. The author of this paper acknowledges the crowd as a newly identified institution and context for providing both, motivation and support in decision making to entrepreneurs. Context and especially community in entrepreneurship has been identified as intermediate environment containing factors both conducive and hostile to any proposed entrepreneurial process (Hindle, 2010).

As the crowd can be perceived as a newly created structure and community, this paper therefore sets out to further our understanding of the phenomenon of Crowdfunding and its inner workings, by adding relevant findings from the field. This is especially important because, as Zafirovski (1999) states, entrepreneurship possesses an eminently social character and is subject to the operation of definite societal processes, moderated by cultural-historical and social-structural factors. Theorising thus, without examining the field from a qualitative, context-rich perspective would not bring the field forward.

Crowd related processes see analogies in organizational theory and the author thus looks for a sociological perspective to structure, conceptualize and evaluate entrepreneurial processes in a Crowdfunding context. Early literature has already shown a strong link between social capital and opportunities, for example De Carolis, Litzky, and Eddleston (2009) draw from social cognitive theory and advance a model suggesting that entrepreneurial behaviour is a result of the interplay of environments (i.e., social networks) and certain cognitive biases in entrepreneurs. They propose that both individual cognition and social capital are important in understanding entrepreneurial behaviour.

Based on that premise, the author uses Bourdieus' forms of 'capital' (Emirbayer & Johnson, 2008; Jonsson & Lindbergh, 2011) as a framework to structure the inquiries.

The paper is therefore structured as follows: First, the informing concepts of the forms of capital are presented in a literature review with a distinct focus on the promise of 'social capital'. Second, the empirical findings, based upon the thematic coding of 36 in-depth Crowdfunding cases are structured by their deductive codes derived from the 'forms of capital', and additional relevant inductive discoveries are presented. Finally, the synopsis is reflected on the theory and a call for related future research is carved out.

Social Capital and Entrepreneurship

While opportunity recognition focuses on the restrictive roles of business and social structure on entrepreneurial activity, opportunity formation emphasizes the creation of opportunities by the entrepreneur (Gielnik, Frese, Graf, & Kampschulte, 2012; Mitchell, Mitchell, & Smith, 2008; Vaghely & Julien, 2010). In contrast to this frequently proposed separation, Chiasson and Saunders (2005) apply Giddens' structuration theory (Giddens, 1984) and argue that opportunity recognition and formation are '*recursively implicated*' and that entrepreneurial action is '*… enabled and constrained by the conscious selection, imitation, and modification of business scripts by entrepreneurs'*. These scripts are enabled and constrained likewise by surrounding structures – these structures have to be recognized and ultimately shaped by entrepreneurs (Chiasson & Saunders, 2005).

Likewise Alvarez and Barney (2012) propose a narrative perspective on how to study opportunities and entrepreneurship. They state that 'actors are a part of an ecology of interaction between social and material elements that forms the basis for entrepreneurial narratives', and see these narratives as a source for delivering identity, coordination, creative imagination and sense making. The author of this paper follows their perspective and sees 'social capital' as a suitable sociological meta-theory to embrace the concept of 'interaction induced synergetic value'.

At the very basis, social capital (SC) can be seen as 'the sum of the actual and potential resources embedded within, available through and derived from the networks of relationships by an individual or social unit' (Dean, Shook, & Payne, 2007; Gedajlovic, Honig, Moore, Payne, & Wright, 2013; Payne, Moore, Griffis, & Autry, 2010). Social relationships enable and induce resource exchange, including ideas about new combinations of resources (innovation) (Bergenholtz, 2011; Cuevas-Rodríguez, Cabello-Medina, & Carmona-Lavado, 2013). Through and by such resource exchange, the recognition and formation of opportunities are first stimulated and later the availability of resources may lead to opportunity exploitation (Inkpen & Tsang, 2005). Social capital in literature has so far been looked at from its structural and relational dimensions with papers often making use of networking theory. Researchers are looking at the scale and scope of networks, at tie-formation and on the cultural and cognitive closeness of the members (Elfring & Hulsink, 2007; Granovetter, 1983; Kreiser, 2011; Mahmood, Zhu, & Zajac, 2011; Massolution, 2013; Phelps, Heidl, & Wadhwa, 2012; Semrau & Werner, 2012). However this paper looks *specifically at the value of the various forms of capital and less at the structure or relations*.

For that purpose, networking theory would be a better choice, but for the intended qualitative meta-level discussion of the 'value' of social capital, it would be too restrictive. This holds well with Anderson and Jack (2002) who examine the nature of social capital that it is said to be both glue, which forms the structure of networks, and at the same time a lubricant that facilitates the operation of networks. They find that social capital is not a thing, but a *process* that creates a condition of social capital. The structural and relational aspects are found to be dimensions of this process.

Coleman (1988) introduces the bonding perspective of social capital, which bases the value of social capital on strong, iterated social connections that result in trust by building 'norms of reciprocity'. Such approaches are highly relevant to the author's logic, because we can see similar occurrences in the interaction in social media that build the intermediaries, cores and backbones for ventures seeking Crowdfunding. Such trust built upon 'learned' norms leads to an increase of sharing and solidarity among members of the crowd. Hence, social capital (e.g., information, trust, and norms) functions as an 'intermediary between the webs of relationships and the recognition of opportunities, financing of ventures, innovative discoveries, or new market prospects' (Gedajlovic et al., 2013). Putnam (1995) emphasizes the importance of historical patterns, for example civic traditions. In this view, social capital simply generates more social capital with no clear conceptualisations of the processes involved in its initiation.

A strong relationship between opportunities and social capital was already hinted at and tested in various settings in recent literature: Khoury, Junkunc, and Deeds (2013) for example are focusing on a firm's signalling of social capital through their alliances, and how socially constructed signals convey legitimacy and enable greater initial public offering (IPO) proceeds. Cuevas-Rodríguez et al. (2013) examine the role of internal and external relational social capital (SC) as determinants of radical product innovation (RPI). By analysing both sides of SC, they provide interesting insights on their relative influence and their interaction effect on this type of innovation. Gielnik et al. (2012) inspect the role of creativity in the opportunity-identification process to test the hypothesis that divergent thinking affects venture growth through business idea generation and that diversity of information moderates the effect of divergent thinking on business idea generation. The interplay, transformation and overlapping concepts of these perspectives play an important role in the modern view of 'social capital' and so Nahapiet and Ghoshal (1997) multidimensional view of social capital can be understood to *bridge* and unify Bourdieus' forms of capital, when it comes to cultural and symbolic capital. They propose three dimensions of social capital: *relational* (e.g., trust, norms, and obligations), *structural* (e.g., ties and relationship configurations), and *cognitive* (e.g., shared values, common language). However, this framework lacks an important perspective, which is discussed by Bourdieu as 'symbolic capital', when he talks about the *transformative* processes between the forms of capital.

Thus, while the former, more modern approaches to the conceptualization of social capital are widely used in the literature with success, none of them would appear to be adequate for inductively exploring the growth and transformation of social capital in Crowdfunding, as they do not focus on the informal (non-institutional) generation of capital through individual agency and interaction. In contrast, Bourdieu views social capital at the field level in terms of both, financial and informational resources, activated through a relational network and providing competitive advantage (Jonsson & Lindbergh, 2011). For Bourdieu, 'capital' acts as a social relation within a system of exchange, and the term is extended *'to all the goods material and symbolic, without distinction, that present themselves as rare and worthy of being sought after in a particular social formation*'. Bourdieu originally proposed three distinct forms of capital: economic capital (material property), social capital (networks of social connections) and cultural capital (objectified cultural competence). A fourth form – symbolic capital - was later added by Bourdieu to better distinguish cultural capital as enabling communication through common signs and language, and symbolic capital as the accumulated result of the hermeneutic (contextual) interpretation of cultural capital within individual norms and values. Examples of symbolic capital would be prestige, legitimacy or charisma.

Central to Bourdieu's 'economy of practices' is the notion that capital is transferable between all three forms such that '*profits in one area are necessarily paid for by costs in another*' (Bourdieu 1986, p. 253) and thus '*the conservation of social energy through all its conversions is verified if, in each case, one takes into account both the labour-time accumulated in the form of capital and the labour- time needed to transform it from one type into another.'* (Bourdieu 1986, p. 253).

In this, symbolic capital can be seen as a moderator and catalyst in the transformation between the forms of capital. To provide a formal framework for this paper, the author understands and applies the forms of capital as follows:

Economic Capital as the most obvious and easy to value, denominates the command of economic resources such as money or (various) assets (Baumol, Litan, & Schramm, 2007; Ucbasaran, Westhead, & Wright, 2008). Bourdieu sees all forms of capital transferable from and to economic capital.

Social Capital in Bourdieus' original meaning, are resources based on group membership, relationships, networks of influence and support (Jonsson & Lindbergh, 2011). Bourdieu sees social capital as '*the aggregate of the actual or potential resources, which are linked to possession of a durable network of more or less institutionalized relationships of mutual acquaintance and recognition.'* (Gedajlovic et al., 2013; Payne et al., 2010).

Cultural capital according to Bourdieu acts as a 'social relation' within a system of exchange. The accumulated formal and tacit cultural knowledge confers power, status and trust through identification and cognitive closeness and thus increases 'likeness' and 'trust' (Khoury et al., 2013). Cultural capital is necessary for mutual understanding and includes amongst others language (signs) as well as metaphors and insinuations that only 'likewise' people can interpret and understand.

Symbolic capital is strongly related to social and cultural capital. Bourdieu sees amongst items of reputation, legitimacy and other 'signals of trust', as an outcome of the reflection of cultural capital onto individual and context specific norms and values. Added later than the other three forms, Bourdieu stresses the transformative power of symbolic capital. Given the hermeneutic process in the creation of symbolic capital though, it is strongly linked and loaded by context - historical or cultural for example - and as such the value can only ever be comprehended in a pre-set context (Putnam, 1995).

Methodological Considerations and Code building

Edmondson and Mcmanus (2007) identify 'methodological fit' in management research based upon the maturity level of the existing underlying theory. Looking therefore at theory on opportunities and entrepreneurship, Short, Moss, and Lumpkin (2009) conclude that research on entrepreneurial opportunities has reached a critical mass, however the final step for a great 'unification theory of opportunities' has yet to be made (Short, Ketchen, Shook, & Ireland, 2010).

Theory on Crowdfunding, as a context and undiscovered social phenomenon itself, can be seen as 'nascent' or immature when it comes to theory building (Belleflamme, Lambert, &

Schwienbacher, 2010; Heminway & Hoffman, 2011; Lehner, 2013; Mitra, 2012). Barely understood, yet clearly distinctive enough from other forms of financing, CF provides a fascinating field for researchers, as it well-reflects changes in society, starting from the 'emancipation' of the crowd (Drury & Stott, 2011) to the troubles in the traditional financial markets (Kobrak & Wilkins, 2011; Kunc & Bhandari, 2011) or the on-going mobility induced 'paradigm shift', based upon new technology and devices.

Thus this paper reports the qualitative findings to the community, in which a carefully selected sample of 36 Crowdfunding cases of social causes (based upon the criteria of either exemplary or especial) was examined in-depth through document analysis, interviews and observations (a list of the cases can be downloaded from the author's institutional webpages). This holds well with Watson (2013) who calls that entrepreneurship research needs to achieve a better balance between studying entrepreneurial activities and setting these activities in their wider context through ethnographic research with concepts from sociology and from pragmatist thinking. He argues field research shall be innovative in combining in-depth studies of several enterprises and their founders with the analysis of broader aspects of 'entrepreneurship in society', by a process of 'everyday ethnographic' observation, reading, conversation and ongoing analysis.

Selected excerpts of the data (documents and interviews) were first transformed into meaningful units and then subsequently coded based upon the proven techniques as set out and hardened by Denzin and Lincoln (2003). The transformation into meaningful units and coding took place in a multi-coder, recursive and iterative process with the following a-priori code manual (see table 1).

Table 1. Coding manual

Code	Meaningful units concerning
SC	The scope and scale of network
	The building process of the network
	Structure of the network (holes, bridges)
	Resources are actively evaluated
	Transformation of Social Capital into Economic Capital
	Information as resource
	Opportunity Recognition
	Strategy, Cooperation and Alliances leading to further Social Capital
	Power Relations
	Real options logic
EC	Command on cash or assets
	Tangible or intangible assets
	Opportunity Exploitation
	Crowdsourcing
CC	Information asymmetry
	Norms and values
	Cognitive closeness
	Human capital
	Language and cultural understanding
	Moderating social capital building
SYMC	Signals
	Reputation building and perception
	Legitimacy of the venture
	Moderating social capital transformation
	Certifications and legal status
	Media representation

In both, the transformation of content into meaningful units, as well as during the actual coding, the author was using inter-coder reliability measures to improve qualitative validity (Hsieh & Shannon, 2005; Winters, Cudney, & Sullivan, 2010), for example by comparing and contrasting differing findings of the same material based on two coders. The findings are presented according to each main code and are later summarized in a synergetic method into three propositions and a process-diagram.

The Cases and Selection Process

As previously stated, a carefully selected sample of 36 Crowdfunding cases of social causes (based upon the criteria of either exemplary or especial) was examined in-depth through document analyses, interviews and observations. These cases were the final selection from a pre-selection of 54 cases, based upon actual access to people and data. The targeted social causes represent a broad range, from a book collection of photos transporting a message of 'crossing boundaries' of different people touching each other, to the well-known 'Lowline', a concept of an underground park in the middle of New York, filled with sunlight by innovative glass-fibers from the surface, to innovative educational interactive books or a religiously motivated touristic path. It also includes ventures with an additional environmental focus, for example an entrepreneurial team was looking for financial capital to develop a technique to use waste-heat from server-farms to supply central heating systems in the immediate surroundings. Using documents and memory fragments by the founders, the cases were analyzed over time, from the moment of a vague 'revelation' of the idea to approximately one month after the end of the Crowdfunding campaign. Most cases were anonymized to ensure openness from the entrepreneurs - except for the ones where the author received explicit authorization to use their full names.

While originally the findings were clustered by the type of capital offered based on ownership status (debt, equity), this was later excluded as a selection and clustering criterion. As social ventures (where the social mission dominates the commercial) show very different entrepreneurial identification and stakeholder rewards and commitment (Lehner, 2011, 2013; Trivedi & Stokols, 2011) to those in predominately commercial ventures, the type of capital (debt or equity), as well as the rewards offered were left open in the qualitative case selection. They will of course be important as clustering and perhaps moderating variables in subsequent quantitative evaluations, but would hinder a broad and rich contextual evaluation. The cases were selected from various important platforms as presented in table 2.

Table 2. Platform and case selection

Platform	Main Type of CF	Geographic Scope	Number of Cases
Crowdcube	Equity/ Debt	UK, US	8
Kickstarter	Reward based	UK, US	12
Indiegogo	Smaller Sums, Reward Based	Worldwide	8
Australian Small Scale Offerings Board	Equity/ Debt	AUS, worldwide	2
Circle Up	Equity/ Debt	UK, US	4
SeedMatch	Equity	Germany	2
		Total	*36*

In table 3 the author present some statistics on key indicators of the selected cases.

Table 3. Statistics on selected cases

Indicator	Description	Amount/ Value
Funding goal setting	<30.000 USD	27
	>30k <100k USD	8
	>100k USD	1
Successfully funded (funding goal finally reached)		21
Types of financial capital and rewards offered.	Equity	5
	Debt	4
	Reward tangible	15
	Reward intangible	12
Entrepreneurial team efforts		22
US based entrepreneurs		18
Non-US based entrepreneurs with businesses in US for crowdfunding purposes only		6

In the following section of findings, exemplary statements are presented to increase transparency of the meaningful units. In the research process the findings had to be either backed by many occurrences amongst the cases or were evaluated by the author as opening a future perspective for others. However, as it is the case in such qualitative endeavors, the author acknowledges that the selection and interpretation of text fragments is ultimately a hermeneutic one.

Findings and Discussion

On social capital

Strong evidence from the cases shows that social capital is the key to success in Crowdfunding. In most cases, the author could see a typical reaction of support and interaction from a tier 1 network of *more or less direct and closer contacts* to the entrepreneurs, which would in some cases lead to an induced tier 2 reaction of a larger, much more distant and dispersed crowd of a scope and scale which is previously unexpected (and therefore not valued in the social capital of the entrepreneur beforehand). This desired tier 2 reaction that ultimately leads to economic capital seems to happen on an all or nothing level, it starts a) only when a certain threshold was crossed of a 'critical mass' in tier 1 reception, and b) when other forms of capital (cultural, symbolic, strategic) are supportive enough.

Case 12: We told all our friends about our Kickstarter project. We were impatient, but it took a while until they looked at it and sent their comments and shared our link on FB and Twitter. For several days nothing happened, but then all of a sudden, as if someone has opened a sluice or so, it really hit of …

The interplay of offerings and expectations by the crowd as conveyed by their public comments and direct interactions with entrepreneurs is, on the one hand, essential to build further social capital but also takes on the role of a catalytic element in carving out the actual opportunity. Opportunity recognition and formation did not seem to be either or, the interactions were rather leading to a convergence in values, norms and ultimately business ideas. The original proposition by the entrepreneurs was often just a catalytic element with little resemblance to the actual opportunity.

Case 4: We learned a lot through the comments we received from our network. It never occurred to us to ask them, but they supported us in numerous ways. We got so many great ideas on how to develop our idea into a business model …

Case 5: Their emails were an eye-opener; in fact we did not see the full potential of what we can do before …

Case 11: After all that input, we decided to pull the plug after the first round and restart the whole thing. Our business idea had grown into something really huge and useful. They liked our (original) idea, but it was nothing compared to what it had become.

This certainly reflects well on previous literature on opportunities and social entrepreneurship, where the original theoretical separation into distinct streams of *either recognition or formation* was already breached (Korsgaard, 2011; Lehner & Kaniskas, 2012; Wood & McKinley, 2010).

In addition, when the tier 1 network seems to find the social cause worthy, many crowd members also start to identify themselves with the idea and try to (often successfully) influence it in their direction and further integrate themselves in the decision making processes of the entrepreneurial team, thus extending and rupturing the typical entrepreneur – opportunity nexus as described in literature (Sarason, Dean, & Dillard, 2006; Shane & Eckhardt, 2003)

Case 3: It was as if they were all in the same boat with us, they provided tremendous support of all sorts, all of a sudden our team consisted of several hundred people, all working together in bringing forward our vision.

As explained above, tier 1 social capital can be seen as the all-important starting point. It was previously accumulated by the entrepreneurs in their interactions and networking actions. In many professionally managed Crowdfunding cases however, the author saw that such tier 1 networks were intentionally built in the preparation phases. This led to interesting alliances, in which, for example, a video producer believed in the idea and therefore offered his services for free to the entrepreneurs, ultimately also increasing social capital for both.

Case 3: This guy approached us after our pitch, and it turned out he was a video guru, he had lots of expertise in viral YouTube videos. He obviously liked our idea and offered to produce a video for the platform for free. First we didn't believe it, but it turned out to be the best thing happening, he was a pro!

Case 20: Our advisors at the business competition told us that we would need to build a bigger network first, before we would start. So over the next few months, while we prepared further, we were meeting and calling old and new friends, always ready with our prototypes and told them what we wanted to do…

Offering crowdsourcing elements and interaction from the beginning helps in gathering social and symbolic capital. Ultimately, the scale of social capital leads to economic capital and thus to financial capital formation building a potential to exploit the opportunity. In this phase, it was shown that an informal form of internet based investor relations was crucial to keep the crowd informed and happy, avoiding an all too easy triggered negative storm in social media. Such a negative avalanche of comments can easily happen when the recursively built, often exuberant expectations are put on trial due to poor implementation and parallel sub-par behaviour of the entrepreneurs.

The value of the scale of social capital however is strongly influenced by how well the built-up investment story (by entrepreneurs and the tier 1 networking peers in their comments) can be translated into various target cultures of tier 2 members. It seems that the scope of social capital matters because the investment story gets translated by the diverse members of the tier 1 networks using contextual cultural artefacts to tap and bridge to tier 2 networks. Thus, a more diverse group of tier 1 members leads to a higher scale of tier 2 members and ultimately to higher economical capital.

Case 22: We received some emails the other day, telling us that while they think we are trying to do a good thing, they did not grasp the problem or solution. We found out that we used too many concepts that we learned while planning our business, but that other people did not use or understand these […] Our friends in the VAE helped with their feedback and we finally could deliver our message to all the people.

However, on a negative side, too much social capital can lead to inefficiency due to high communication costs and necessary corporate governance structures. Some entrepreneurs seemed to be overwhelmed and lost to the point of inertia, while some ruined their original opportunity because of too much input.

Case 21: Soon we realized we needed an assistant to handle and answer all the communication. This was not in our budget, but it became clear that investors needed to interact before they would pledge their money, and failure in it would result in a failure of our idea.

Case 30: We were awestruck by the amount of mails and suggestions. We thought we knew what we wanted to do, but after reading half of the messages, we found that we actually didn't know 'nothing'. That terrified us to the point that for a while we did something else …

Evidence on social entrepreneurship holds that founders often act as policy entrepreneurs, as they need to tackle institutional and structural barriers when innovating social services. In crowdfunded social ventures, it occurred that the crowd itself took over this role of policy entrepreneurship, as they exerted public pressure in numerous ways.

Case 34: The response of the crowd to our problems was phenomenal, in just a few day our message had been spread over Twitter and Facebook and people started collecting petitions …

Synergic value created by cooperations of all kinds can be highly supportive. In contrast, it can also be negative, for example when incumbent firms use their market power to work against new ventures or alliances are not well perceived in public opinion. Such cooperation can take place in various forms, from temporary, loose, punctual alliances, to later complete mergers, or large firms investing in creative startups using a real options strategy.

The empirical findings contain lots of references to collaborations. One of the most obvious cooperations takes place between the entrepreneurs and the intermediary platform. Their success is ultimately linked. The pre-set structure concerning reporting and presentation on a certain platform limits the entrepreneurs. While the current typical way of short video pitches and some comments seemed to work in many cases, in a few others, the entrepreneurs claimed that they were severely limited in their presentations by the structural constraints imposed by the platform. Also the business model of a platform, including the fee structure and its marketing strategy can multiply the individual social capital value or reduce it.

Case 23: I don't think we could present our story the way we wanted; sometimes I thought we were working for the platform instead. It was all about their rules and regulations, and I guess about their fees.

Case 14: The platform was so helpful, of course we knew they would earn from our success, but they provided ideas and contacts that really helped.

Business angels and venture capital funds are also actively browsing the offerings and see a successful Crowdfunding round as a market test. Few, but increasingly more ventures amongst the cases were actively contacted after successful first CF rounds. Crowdfunding success is seen here as a strong signal in symbolic capital, leading to a further increase in social capital and ultimately to economic capital through alliances.

Case 4: Shortly after we had reached our goals, we received a different sort of mails. Business angels and investors congratulated us and invited us for a talk…

Case 25: After our pitch, an angel approached us. He would invest money to pay for the preparation for the Crowdfunding campaign, in exchange he wanted 20% of our venture…

Another strong signal seems to be the involvement of public bodies. The promise of a public-private-partnership (PPP) or other public funding and endorsement leads to increased economic and symbolic capital and thus increases the chances of success.

Case 14: The New York based LowLine will be able to use a huge underground area in NY, maintained and paid for by the city, if they can demonstrate a working prototype of their sunlight fiber technology. The crowd reflects well on this proposition and see it as a strong signal of trust.

What became evident in some cases is a new strategic approach from some well-established companies (in this case from the software industry). Investing a relatively small (but large compared to the other crowd investors) sum of money as early equity in a company allows the portfolio building company to later play an important role in steering (and perhaps taking over the company) when the opportunity develops. Yet for the large company there is little at stake and it has limited its risk due to portfolio-dispersion effects. These companies thus seem to use the Crowdfunding markets to employ a 'real-options strategy' (Scherpereel, 2008; Van de Vrande & Vanhaverbeke, 2012) in opportunity recognition. While many of the investments may be lost, the one opportunity found will make up for all the others, and the number of crowd followers will provide an early indication of the success-potential of a venture. On the other side of the coin, some incumbent companies feel threatened and try to influence stakeholders, lobbying against the new ideas. Social capital seemed to help overcome these hurdles.

Case 21: A representative of x approached us. X would invest 100.000 quid for 35%, and promised us more when our prototype was successfully (crowd) funded and built. We were tempted but thought that if it works, we may later get millions for 35%...

Case 8: Company y would invest 40.000 Euros, in exchange for publicity. We took the offer, of course it is just a PR strategy and not real 'good will', but we can make good use of the money, and the outcome matters. Later it turned out they wanted to influence our idea and how we proceed. I guess we made a compromise…

Case 17: We ran into lots of trouble. We knew our ideas were groundbreaking, but we thought we kept to the rules. Numerous complaints about making money from the poor and that our services should only be offered by the state or the church didn't make life easier. But the great many people supporting our idea gave as backing, and we showed the officials the numbers and emails. It made a huge impression.

For example when Donald Trump endorses a venture (in case 19) through investing or highlighting on 'his' webpages, some members of the crowd react in an adverse way and even withdraw their backing, because they are afraid of a power-inequality. Also traditional marketing instruments such as telemarketing of the platforms, while strengthening economic and symbolic capital (due to the alliance between the platform and the venture) have a negative effect on symbolic capital as direct marketing is negatively connoted.

Another interesting and promising aspect of social capital was found only later when talking to several investors about the status of the findings. One of the major problems for scaling social ideas seems to be the dispersion in a package with the necessary resources (Lyon & Fernandez, 2012). Using Crowdfunding and crowdsourcing together, these investors obtained funding and resources (including human resources) to multiply and spread a social opportunity, found originally by an entrepreneur in a very different geographic setting.

Case 11: A round of crowd investors convinced the entrepreneurs to scale their social idea worldwide using Crowdfunding and crowdsourcing.

On cultural capital

Cultural capital means common values, language, norms or other artifacts enabling understanding. Such understanding is a prerequisite to build up and strengthen social capital through interactions. It was clearly visible in the cases that a cultural closeness within the network segments is absolutely crucial, whereas geography in terms of nations or physical distance matters relatively little. Inevitably, a distance in culture also means difficulties in cognition and interpretation. This fits well with early literature examining that distance in Crowdfunding is not so much based on miles but on culture (Agrawal et al., 2011).

Case 22: We looked at the statistics and it was clear that we did not reach different groups, it was mostly young students like us who were attracted and responded to our call. Especially our target group did not seem to understand or like our concept as we did not receive any feedback.

Case 24: I think Europe and the US are very different when it comes to what is a 'hip' investor story and we did not even try and convince people in Africa…

The author identified several cases in which European (non UK) ventures tried to engage with newly built tier 1 networks made up of mostly US members. The reason for this can be explained by a much more attractive legislation for Crowdfunding in the US. As a result many European founders use jumpstart platforms and innovation circles in the US and ultimately found their business in the US. The first attempts at video pitches and explanation of the relevance of their social causes often failed utterly because the cultural-gap was too wide. When US based consultants helped rework the representations, all of a sudden the tier 1 network was in cognitive reach again. However, these presentations seemed 'alien' to the European (non UK) entrepreneurs themselves, because of the rhetoric, including the symbols and the value-messages employed.

Case 4: Meeting x was the best thing for us, he had much experience and helped us redo the whole presentation including the video. For us the way of talking about our business and 'showing off' was very strange and presumptuous. We don't do that in Germany, but the crowd seemed to like the new way, from there on it worked …

Thus it was found that the message conveyed in the investment story is highly moderated by cultural capital. Cultural and cognitive capital was leading to common identification of the value proposition of an opportunity and thus ultimately to funding. Very few cases applied professional marketing tools such as customer relationship management (CRM) software. This was particularly striking as many of the entrepreneurs were well versed in computer technology and a CRM system may help in targeting different audiences, clustered by cultural norms.

When it comes to building an overarching new culture in the Crowdfunding community, it seems that there are already some cultural identification artefacts for this group. Clothing and the language used in the short pitches, as well as the demeanour of the entrepreneurs in the videos and comments seem to include common elements: depicting for example 'youth' in thinking, a focus on a diffuse 'potential for change', and the careful avoidance of traditional 'commercial' terminology and logic. The more similar the pitches and stories were to traditional business presentations, the less successful the Crowdfunding campaign seemed to be. This however may also stem from the cultural norms already set by social entrepreneurs as described in the literature (Nicholls, 2010; Steyaert & Dey, 2010).

On symbolic capital

Entrepreneurial teams with a ‘high reputation’ in the eyes of the crowd, for example built up through previous successful ventures or positive first-rounds in Crowdfunding are much more likely to be recognized by platforms and traditional media. Their messages are easier multiplied and the scaling of social capital is much higher.

Symbolic capital thus increases the value of social capital, through a) increasing the reach via secondary media coverage and b) adjusting the perception filters of the recipients to allow for improved reach. Amongst the cases, the most successful ones were those with a previous crowd funded project or when one of the founders was already (positively) known to the media and thus radiated an aura of success.

An interesting and closely related form of structurally loaded symbolic capital in Crowdfunding was discovered by the author, the crowd-accepted status of the entrepreneurs as either: a ‘rebel’, a ‘misfit’, an ‘underdog’ or in some cases a ‘messiah’ helped attract tier 2 network members and thus led to an increased social and economic capital. This status was staged (often subconsciously in many cases) using theatrical elements, including pathos, rhetoric and visual symbols such as clothing and carefully built-in narrations and media representations. The crowd responds well to vague promises of ‘systemic’ changes by such ‘heroes’ and tend to emotionally over-react with trust.

In addition, socially motivated ventures, on the whole, have a much higher symbolic capital in the form of their ‘legitimacy’ in the eyes of the crowd. Their success rate seems to be much higher compared to the average Crowdfunding venture, based on our early qualitative evidence. However, in many cases it was not clear to the entrepreneurs before, how the crowd would judge the legitimacy of their venture.

Case 18: Our presentation led to an outcry in the community, numerous heated discussions in our forums on obesity followed that had nothing to do directly with our business. But the discussions helped attract an incredible amount of people that saw our idea and we got a good feeling of what is really necessary and what are the people’s wishes and hopes…

Public media reception, virally spread anecdotal occurrences or well-known exemplary tales in secondary marketing efforts are building on a fruitful ground of intrinsic values and hope to steer anticipation in the crowd. Anticipation itself works as a moderating filter through which ideas are recognized and endorsed. In cases when this works well, the crowd starts to interact with the entrepreneurs in a high-engagement setting, bringing in further endorsement or proposing changes to the ideas. This helps refine the opportunities and of course ultimately leads to economic capital. Of course on the cautious side, the corollary of media means that ventures that are outside the current ‘agenda’ may not find the due attention, so the media have a strong moderating effect.

Case 1: Once we were ‘endorsed’ by Kickstarter, things started to get crazy, it was not so much funding itself, but we received tons of emails with ideas and pledges of support of many things, and our pages were shared in whatever social media, everywhere …

Case 9: Besides the money, we received all kinds of donations. I think we kind of changed our business model because of the things we got. One time we were offered a flat for free, of a size we wouldn’t have thought of. So we took the chance and scaled up our offerings.

Certificates and legal status, for example working as a registered charity or a social enterprise seem to matter, but much less than in traditional funding competitions. The crowd endorsement by some form of a ‘Like’ button or being in the spotlight of well-respected platforms and media is much more of a signal to the crowd than traditional certificates. Audition reports were not even recognized as valuable by many crowd investors, this may well stem from the different backgrounds and contexts of crowd members to that of registered investors. Formal impact measurements such as SROI do not play a big role, however, there are some early informal assessments, taking place through narrations and anecdotal evidence presenting.

Empirical evidence also clearly demonstrated that symbolic capital in crowd funded ventures is highly cultural context specific. Social ventures based on European ideas, for example, seem to have much less legitimacy to US crowd investors than ventures with a distinct US 'social cause' logic, where the innovative and creative character of an opportunity with a potential for 'global' change is much more in focus.

Case 5: All we wanted to do is get our idea funded to do something for our community, but we were asked over and over how that will help the world, strange…

This holds well with previous findings in literature on the various schools of thought in social entrepreneurship (Hoogendoorn, Pennings, & Thurik, 2010; Lehner & Kaniskas, 2012). The empirical differences in reception however are not based upon geography but based upon the values inferred from public discourse in media (Li & Zahra, 2012). As could be demonstrated in the cases, symbolic capital matters as an important signal in a time of information overload. This is reflected well in literature, for example when Putnam (1995) use this sociological (anthropological) perspective and examine how our strategies are influenced by signals of symbolic capital. Symbolic capital shows tremendous value when it comes to transform various forms of capital into each other. The role of media and platforms as amplifiers and multipliers needs to be addressed accordingly and early evidence suggest a different set of signals used than in traditional investor or stakeholder theories.

On economic capital

Economic capital, in the form of money or command over assets (tangible or intangible) allows the exploitation of an opportunity. However, its availability and form in some cases also influences the opportunity itself. The presence of economic capital is an antecedent of opportunity exploitation, but it does not automatically lead to it. Other factors such as risk-taking, experience or entrepreneurial orientation (Covin & Miller, 2013) influence decisions and outcomes. In addition, while the transformation of social capital into economic capital helps to fund the venture, social capital is still a moderating factor when it comes to exploitation, because of the additional resources necessary.

In almost all cases, the entrepreneurs went through rounds of business plan competitions and pitches before they started presenting their ideas to the crowd. Therefore, while the managerial termini in the presentations were different to that of commercial presentations, the know-how and acceptance of business instruments was there and often there was a financial injection by some institutions to fund the upfront costs of Crowdfunding while influencing the perspectives on the opportunity.

Case 4: Without the support of pitch-for-change we wouldn't have made it. We have learned how to make a business plan and how to calculate our finances…

Economic capital in the form of innovative patents (assets) is also highly relevant to convince the crowd, when the symbolic capital (legitimacy of the idea and reputation of the entrepreneurs) allows building up enough trust in the ability of the entrepreneurs to exploit it.

In many cases there was a distinct behavioural herding effect visible. Economic capital, in the form of early pledges by some members, leads to a higher symbolic capital in the eyes of the crowd and therefore to an increased chance of following pledges. These early backers, however, recognize their importance and want to influence managerial decisions on opportunity exploitation.

Case 7: The funding took place in waves, obviously there were many thresholds involved that we did not know about and actually still do not understand properly. In hindsight, we would have set our funding goal much higher, but we didn't know.

In some cases, the entrepreneurs first tried to convince banks, but they were either denied funding or the interest rates were too high, based on the perceived risk of the idea. This was often aggravated by the fact that the whole concept of 'social entrepreneurship' was still not acceptable in mainstream banks. Crowdfunding provided an appropriate form because a) the social value seems to matter much more than risk and b) the small individual investments allow for low risk-equivalents for the individual members.

Case 12: It was a completely different picture. Before, everyone told us that our idea is no business, it won't pay our rent so to speak. But the crowd cheered us up, we received many supporting emails and of course funding.

Thus Crowdfunding changes the influence of risk on the decision to exploit an opportunity and even non-equity Crowdfunding allows the dispersion of risk onto the shoulders of many. It may, however, lead to misuse and fraud, as it almost happened in one case. In addition, too much economic capital may lead to an extreme scaling of the venture and thus the business model adaption cannot cope with the pace, ultimately leading to the demise of the business and failure of the opportunity exploitation.

Case 15: We thought, wow, now Houston we have a problem. So many orders, I mean we now had the money, but no manufacturing pipeline ready for these amounts!

Economic capital was not only derived in the form of financial means, often Crowdfunding entrepreneurs are also using crowdsourcing to tap the crowd for information, reused items or voluntary help. This goes well with literature identifying social entrepreneurs as 'Bricolageur' (Di Domenico, Haugh, & Tracey, 2010). Also an interesting facet in Crowdfunding may often be that the target group of the social cause was also the one financing it in the true meaning of 'bootstrapping'.

Case 12: It made sense, we all worked together for our common goal, and it was like community redefined. We create what is good for us, by the means of many. Everyone seemed to contribute what is possible.

Conclusions

The interplay of the various capital forms in the recognition, formation and exploitation processes in crowd funded ventures could well be demonstrated using the perspectives of social, cultural, symbolic and economic capital.
Interactions in CF processes clearly form attitudes and norms in 'entrepreneur – crowd investor' pairs. Looking at emails and communication, in many cases the wording as well as the messages and values converged over time. Bringing these insights together, the author proposes the following schema how the forms of capital interplay in crowd funded ventures (see figure 1).

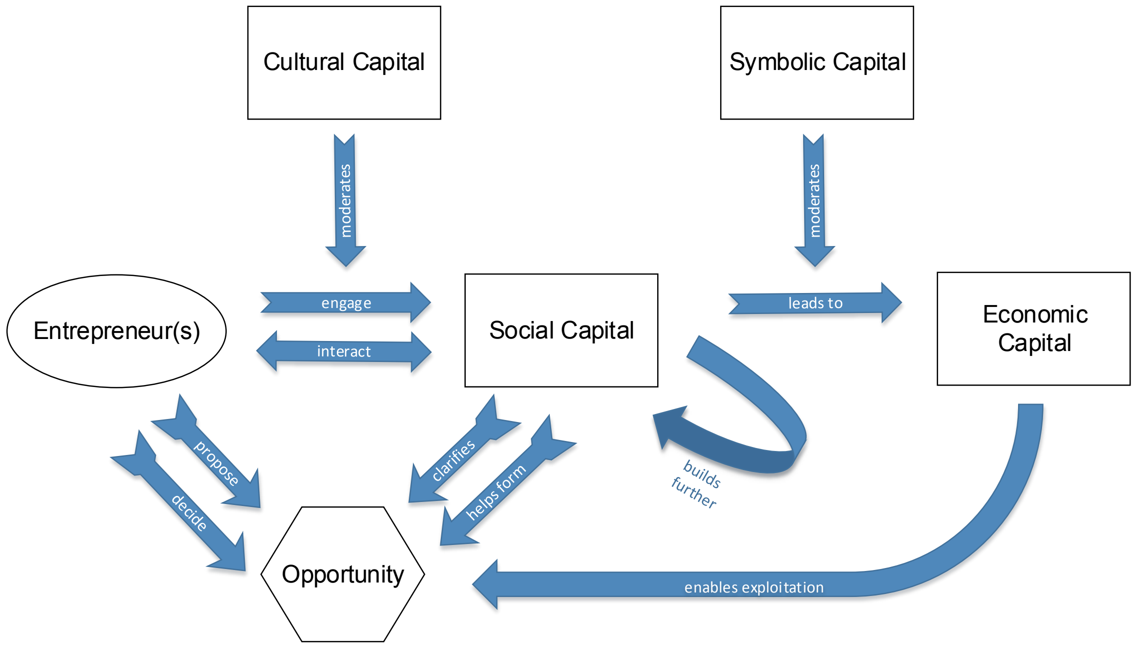

Figure 1. Social capital formation and interplay on opportunities

What is interesting and perhaps striking is just how evidently the forms of capital are transformed into each other, thus Bourdieu's proposition about the conservation of 'social energy' in the transformation processes can well be demonstrated. When social capital is engaged well enough by the fund-seeking entrepreneurs, for example through elements of interactions and dialog - sometimes even leading to a co-creation of opportunities, the bridging and linking functions work very well within their networks and thus the social capital rises exponentially. In order for the bridging and linking to work however, cultural capital in the form of a common language (at least within the network segments) and related symbols of interaction is a necessary mediator. Yet, as was demonstrated in the cases, even a growing social capital with its promise of resources and information dispersion cannot guarantee a successful funding. For that to happen strong symbolic capital is necessary, which acts as a catalyst in the transformation of social capital into economic capital. Such symbolic capital can be manifested in a certain 'nimbus' built around the founders' reputation, but more often it is created through a back-and-forth reflection between the discourse built around the projects, and the (matching) norm-value pairs in the crowd. This 'legitimacy' was thus identified as a necessary prerequisite to a successful Crowdfunding; without it typically only very close network ties are actively supplying funds, although the information dispersion and funding potential would have been built up.

Based upon the synopsis of the previous paragraphs and the demonstrated interplay and transformation of the various forms of capital and opportunities, the author thus put forward the following propositions for discussion:

P1: The entrepreneurial team starts the ball and act as catalysts using their social capital. Yet cultural and symbolic capitals moderate a) the expansion of the social capital (cultural) and b) the transformation into economic capital (symbolic).

Networking size and scope is a prerequisite, yet not a guarantee for an actual resource exchange. This is based upon the perceived legitimacy and trust in the entrepreneurs. Exploitation is still moderated by the entrepreneurs, but the stages shift between the forming and early exploitation. The author sees a 'collaborative opportunity development' taking place in crowd funded social ventures.

P2: Interaction with the crowd may induce a reconsideration of the original opportunity, and crowdsourcing may help form the actual opportunity (co-creation) and disperse information at the same time.

The actual opportunity recognition and formation process takes place in a much more unstructured way, in which the individuals and the crowd (comprising people with heterogeneous aims and values) exchange information and resources that will finally lead to better discovery and subsequent exploitation. The motives of the crowd-members can be summarized as ‘reciprocity’, as individual members still try to maximize their profits - which need not be of a financial nature, but often stem from the ‘social’ and the individual values.

P3: The ‘nexus’ of opportunity and entrepreneur is breached in Crowdfunding of (social) causes. Issues of identification, ownership and control are not based upon any formal relation but based on perceived legitimization and democratic processes.

Crowd based opportunity development in social ventures thus leads to less control over the opportunity by the entrepreneurs, but at the same time promises a large potential for scaling and exploitation. The process can be seen as ‘embedded agency’. Overall, there are more stakeholders involved, but their power is relatively equal and their features are blurred. For example stakeholders can be financial suppliers, customers and members of the workforce at the same time. Function-wise the author sees an identity of the legitimacy and value providing stakeholders in Crowdfunding.

It could well be demonstrated by the cases of this qualitative study that social capital is not only a necessary antecedent to Crowdfunding success, but that social capital also helps in recognizing opportunities clearer, influences the forming of opportunities, and assists in overcoming adverse inputs (for example when crossing normative, structural and cultural barriers).

What has been shown is that the process of Crowdfunding takes place in several stages, in which different forms of capital matter. In the first preparatory stage, opportunities are still in the process of clarification and formation, the tier 1 network of people already linked to the entrepreneurs are important in helping and ultimately influencing the opportunities. This process is closely related to the concept of ‘Crowdsourcing’. In later stages of successful social ventures, the crowd is motivated to disperse the information and build social capital for the entrepreneurs but also for the social cause. This finally leads to a tier 2 network reaction, of people previously unknown to the entrepreneurs and ultimately to economic capital formation, opening the potential for opportunity exploitation.

These processes are highly moderated by cultural capital (leading to mutual understanding) and symbolic capital (signals). Another form of capital; social capital, includes various alliances, for example with public bodies, interested big players or other traditional investment firms. This form of capital influences symbolic capital, as alliances incorporate reputational risk.

The multitude of involved actors, from entrepreneurs to tier 1 and finally tier 2 networks lead to a ‘collaborative opportunity development’, with different regimes concerning risks and rewards, including financial and social values. Success is only possible when these three regimes are aligned and entrepreneurial strategies address this issue. The processes of recognition, formation and exploitation are inseparable and ‘messy’ –not only chronological but also concerning processes, information flow and the locus of control - to the point of a necessary redefinition of terminology.

The interplay of the crowd with the ventures, providing guidance, resources, as well as a market, may provide a fertile ground for researchers from various disciplines on a quest to understand the 'new' entrepreneurship. Sociologically, CF can be seen as part of the new 'emancipation' of the crowd and therefore as part of the emerging power-struggle between incumbent institutions, bureaucracy and creative individuals with a desire for societal change.

'Social capital' as a lens seems therefore well equipped in explaining the multifaceted and interrelated processes taking place in Crowdfunding. It appears especially suited because it stems from the sociological sphere and thus acknowledges the importance of the various societal levels and the inherent complex routes necessary to enable 'crescive' entrepreneurship – with regard to individuals, organisations and people.

On a more practical level, social ventures seeking the crowd for funds may well find much more than just financing. Crowdfunding seems an ideal match for entrepreneurs seeking for 'societal' value more than for economic gain. While the entrepreneurs act as catalysts, members of the crowd take over various roles at the same time, from co-founders to funders as well as to customers and co-workers. To enable this collaborative opportunity development, the entrepreneurs 1) need to improve their cultural capital in the form of a careful comportment of the languages and values of the many, and 2) be prepared to actively work on building symbolic capital, for example by emphasizing the societal benefit (legitimacy) of their ideas and by providing respectful interaction with the crowd. When this happens, social capital is actually transformed into economic capital and individual small monetary contributions of all kinds can sum up to build enough resources to boldly address social needs. In addition, the 'wisdom' of the crowd helps in selecting and adjusting the projects, thus reducing the amount of political influence and goodwill. One remarkable benefit of Crowdfunding in the social venture sphere can be seen in its potential for a global dispersion of ideas, thus assisting innovative (social) entrepreneurs in their quest to become 'global changemakers'.

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