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Conference Paper

Donation-Based vs. Equity Crowdfunding for Social Enterprises: A Conceptual Model and Theoretical Propositions

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Abstract

This paper develops a comprehensive conceptual model for comparing donation-based and equity crowdfunding in the context of social enterprises. Drawing on multiple theoretical perspectives, including Signalling Theory (Spence, 1973) [16], Social Capital Theory (Lin, 2001) [12], and Stakeholder Theory (Freeman, 1984) [8], we propose a framework that elucidates the distinct dynamics of these two crowdfunding models for social ventures. The study presents seven key theoretical propositions addressing aspects such as quality signalling, the role of social capital, platform features, herding behaviour, governance challenges, and long-term outcomes. By integrating insights from social entrepreneurship, crowdfunding, and organisational theory literature, this conceptual model provides a nuanced understanding of how different factors influence crowdfunding success and post-funding performance for social enterprises. The paper contributes to the growing body of literature on social finance and offers practical implications for social entrepreneurs, crowdfunding platform developers, and policymakers. Future empirical research directions are suggested to test and refine the proposed theoretical framework.

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INTRODUCTION

The emergence of crowdfunding as a viable financing option for social enterprises has transformed the landscape of social entrepreneurship financing in recent years (Lehner, 2013) [11]. As social enterprises strive to address pressing societal challenges while maintaining financial sustainability, the choice between donation-based and equity crowdfunding models presents a critical decision point with far-reaching implications for funding success, stakeholder engagement, and long-term mission fulfillment (Mochkabadi & Volkmann, 2020) [13]. While a growing body of literature has examined crowdfunding dynamics in general (Mollick, 2014; Belleflamme *et al*., 2014) [14], there remains a significant gap in our understanding of how different crowdfunding models compare specifically in the context of social enterprises. This paper aims to address this gap by developing a comprehensive conceptual model that elucidates the distinct dynamics of donation-based and equity crowdfunding for social ventures. The broad objective of this study is to develop a comprehensive conceptual framework that elucidates the distinct dynamics of donation-based and equity crowdfunding for social enterprises, and to propose theoretical explanations for their differential effects on funding success and long-term organizational outcomes. Specifically, we aim to:

1. Identify and analyze the key factors that influence the success of donation-based and equity crowdfunding campaigns for social enterprises.
2. Explore the theoretical underpinnings of how these factors may differ between donation-based and equity crowdfunding models in the context of social enterprises.
3. Examine the potential long-term implications of choosing between donation-based and equity crowdfunding for social enterprises' mission alignment, governance, and sustainability.
4. Develop testable propositions that can guide future empirical research in the field of social enterprise crowdfunding.

To achieve these objectives, our study is guided by the following research questions:

1. What are the key theoretical constructs that explain the dynamics of crowdfunding in the context of social enterprises?
2. How do the mechanisms and success factors of donation-based and equity crowdfunding theoretically differ for social enterprises?
3. What are the theoretical implications of platform design and features for donation-based versus equity crowdfunding success in social enterprises?
4. How might the choice between donation-based and equity crowdfunding theoretically affect the long-term outcomes of social enterprises?
5. What propositions can be developed to guide future empirical research on the comparative dynamics of donation-based and equity crowdfunding for social enterprises?

To address these questions, we integrate multiple theoretical perspectives, including Signaling Theory (Spence, 1973) [16], Social Capital Theory (Lin, 2001) [12], Stakeholder Theory (Freeman, 1984) [8], and Information Cascade Theory (Bikhchandani *et al*., 1992) [3]. This interdisciplinary approach allows us to capture the complex interplay of factors that influence crowdfunding outcomes in the unique context of social entrepreneurship. The paper presents a series of theoretical propositions that address various aspects of the crowdfunding process for social enterprises. These propositions cover topics such as quality signaling requirements, the role of social capital and networks, the importance of social mission clarity, platform features, herding behavior, governance challenges, and long-term outcomes. By developing these propositions, we aim to provide a nuanced framework for understanding how different factors may influence crowdfunding success and post-funding performance for social enterprises. This conceptual paper contributes to the literature on social finance and entrepreneurship in several ways. First, it provides a comprehensive framework for comparing donation-based and equity crowdfunding specifically for social ventures, an area that has received limited attention in existing research. Second, by incorporating multiple theoretical perspectives, it offers a more holistic understanding of the crowdfunding process for social enterprises, addressing calls in the literature for more integrative approaches to studying social entrepreneurship financing (Short *et al*., 2017) [15].

Research Design

This study employs a conceptual research design to explore donation-based and equity crowdfunding models for social enterprises. It is grounded in a comprehensive literature review and the development of a theoretical framework integrating multiple theories. The study proceeds in three phases:

1. **Literature Review and Theory Integration:** Systematic review of literature on crowdfunding, social entrepreneurship, and related fields to identify key theoretical frameworks and empirical findings.
2. **Conceptual Model Development:** Develop a comprehensive conceptual model integrating elements from Signaling Theory, Social Capital Theory, Stakeholder Theory, Agency Theory, and Information Cascade Theory.
3. **Theoretical Proposition Development and Analysis:** Develop and analyze a series of theoretical propositions addressing the comparative aspects of donation-based and equity crowdfunding, considering short-term and long-term outcomes. The analysis involves examining each proposition, exploring moderating and contextual factors, and discussing implications for stakeholders.

The analysis involves examining theoretical propositions, exploring moderating and mediating factors, considering contextual influences, and discussing implications for social entrepreneurs, investors, platform providers, and policymakers. This conceptual approach comprehensively explores crowdfunding dynamics for social enterprises, synthesizing existing knowledge to provide a robust foundation for future empirical research.

LITERATURE REVIEW

The emergence of crowdfunding as a viable financing option for social enterprises has attracted increasing scholarly attention in recent years. This innovative funding mechanism has opened up new possibilities for entrepreneurs, particularly those in the social sector, to access capital and support for their ventures.

Theoretical Foundations of Crowdfunding Belleflamme *et al*. (2013) provided an early theoretical framework for understanding crowdfunding, highlighting its potential to address funding gaps for entrepreneurs. Their work laid the groundwork for conceptualizing crowdfunding as a distinct form of entrepreneurial finance. Building on this, Lehner (2013) [11] specifically examined the intersection of crowdfunding and social entrepreneurship, suggesting that crowdfunding could be particularly well-suited for social ventures due to its ability to leverage social capital and community support. This alignment between crowdfunding mechanisms and the community-oriented nature of social enterprises has sparked considerable interest in the potential of crowdfunding to support social innovation.

Factors Influencing Crowdfunding Success Several studies have focused on identifying the key determinants of successful crowdfunding campaigns. Mollick (2014) [14] conducted a seminal study that identified project quality, network size, and geography as critical factors influencing campaign outcomes. This research highlighted the importance of both the inherent qualities of the project and the entrepreneur's ability to mobilize support networks. In the context of social enterprises, Calic and Mosakowski (2016) [5] found that projects with a sustainability orientation had higher chances of success on reward-based crowdfunding platforms. This finding suggests a potential alignment between social goals and crowdfunding outcomes, indicating that the crowd may be particularly receptive to ventures that promise both financial and social returns. Further research by Colombo *et al*. (2015) [6] emphasized the role of social capital in early-stage crowdfunding success, highlighting how entrepreneurs can leverage their networks to gain initial momentum for their campaigns.

Comparison of Crowdfunding Models The comparison between different crowdfunding models has also been a subject of research, though with limited focus on social enterprises specifically. Vismara (2019) examined the differences between equity and reward-based crowdfunding, noting that equity models tend to attract more professional investors, while reward-based models often rely more heavily on personal networks. This distinction raises important questions about the suitability of different models for social enterprises, which may need to balance professional investment with community engagement. Ahlers *et al*. (2015) further explored the dynamics of equity crowdfunding, identifying key signals that influence investor decisions, such as human capital, social capital, and intellectual capital. These findings suggest that social enterprises pursuing equity crowdfunding may need to emphasize different aspects of their venture compared to those using donation or reward-based models. Long-term Impacts of Crowdfunding.

Regarding the long-term impacts of crowdfunding, Signori and Vismara (2018) [18] investigated the post-campaign performance of equity-crowdfunded firms, finding that successful campaigns were associated with higher chances of survival and follow-on funding. This research begins to address the critical question of whether crowdfunding success translates into long-term venture success. However, similar studies focusing specifically on social enterprises are scarce, leaving a gap in our understanding of how crowdfunding affects the long-term sustainability and impact of social ventures.

Stakeholder Perspectives and Platform Dynamics Recent research has also begun to explore the perspectives of different stakeholders in the crowdfunding ecosystem. Gerber and Hui (2013) [10] examined the motivations of both project creators and funders in crowdfunding, highlighting the complex interplay of social, financial, and personal factors that drive participation. However, there remains a need for more comprehensive research that incorporates the views of social entrepreneurs, investors, and platform providers on the suitability of different crowdfunding models for social enterprises. The role of crowdfunding platforms themselves has also been a subject of study. Belleflamme *et al*. (2015) [2] analyzed the economic principles underlying crowdfunding platforms, emphasizing how platform design and policies can influence campaign outcomes. This research underscores the importance of considering platform dynamics when evaluating the potential of crowdfunding for social enterprises.

Regulatory and Policy Implications Finally, the regulatory landscape surrounding crowdfunding, particularly for social enterprises, remains an area in need of further research. While studies such as Bruton *et al*. (2015) have examined the broader implications of crowdfunding for entrepreneurial finance, limited attention has been paid to how existing regulations affect the use of different crowdfunding models by social enterprises and what policy changes might be needed to better support this sector.

Research Gaps

Despite the growing body of literature on crowdfunding and social entrepreneurship, several important gaps remain:

1. Comparative analysis of crowdfunding models for social enterprises: While studies have compared different crowdfunding models in general, there is a lack of research

specifically examining how donation-based and equity crowdfunding compare in the context of social ventures.

2. Long-term impacts on social enterprises: Most studies focus on the immediate success of crowdfunding campaigns, but there is limited research on how the choice of crowdfunding model affects the long-term performance and social impact of social enterprises.
3. Factors influencing crowdfunding success for social ventures: While success factors have been identified for crowdfunding in general, more research is needed to understand if these factors differ for social enterprises and how they vary between donation-based and equity models.
4. Stakeholder perspectives: There is a lack of research incorporating the views of social entrepreneurs, investors, and platform providers on the suitability of different crowdfunding models for social enterprises.
5. Regulatory and policy implications: Limited attention has been paid to how existing regulations affect the use of different crowdfunding models by social enterprises and what policy changes might be needed to better support this sector.

This study aims to address these gaps by providing a comprehensive comparison of donation-based and equity crowdfunding models for social enterprises, examining both short-term funding success and long-term impacts, and incorporating multiple stakeholder perspectives. By doing so, it will contribute to a more nuanced understanding of how crowdfunding can best support the growth and impact of social enterprises.

Conceptual Model

The conceptual model for comparing donation-based and equity crowdfunding in social enterprises is grounded in a synthesis of multiple theoretical perspectives and empirical findings from the crowdfunding literature. This model aims to provide a comprehensive framework for understanding the complex dynamics that influence the success of social enterprise crowdfunding campaigns and their long-term outcomes. The model consists of three main components: crowdfunding models, influencing factors, and outcomes.

Crowdfunding Models

1. **Donation-based Crowdfunding:** In this model, backers contribute funds to a project or venture without expecting financial returns. This model is often associated with philanthropic or social causes, making it particularly relevant for social enterprises (Belleflamme *et al*., 2014).
2. **Equity Crowdfunding (ECF):** This model involves backers investing in a venture in exchange for equity stakes. It represents a more complex form of crowdfunding, subject to financial regulations and involving longer-term commitments (Ahlers *et al*., 2015).

The choice between these models for social enterprises is not merely a financial decision but one that can significantly impact the venture's governance, stakeholder relationships, and long-term mission alignment.

Influencing Factors

1. **Information Asymmetry and Signalling**
   The success of crowdfunding campaigns, particularly in equity crowdfunding, is heavily influenced by the ability of entrepreneurs to signal their quality and reduce information asymmetries. This concept is rooted in Agency Theory (Jensen and Meckling, 1976) and Signalling Theory (Spence, 1973) [16]. In the context of crowdfunding, entrepreneurs (agents) must convey signals to potential backers or investors (principals) to overcome information asymmetries. These signals can be categorised into:

a) Hard Information:

- Firm characteristics: Age, size, and legal form of the enterprise
- Financial information: Historical financial data, projections, and current financial status
- Business characteristics: Business model, market potential, and competitive advantage
- Project description: Detailed explanation of the project, its goals, and implementation plan

b) Soft Information:

- Intellectual capital: Patents, trademarks, and other forms of intellectual property
- Human capital: Entrepreneur's and team's experience, skills, and track record
- Social capital: Networks, partnerships, and endorsements
- Social media network: Online presence and engagement

The effectiveness of these signals may differ between donation-based and equity crowdfunding models. Ahlers *et al*. (2015) found that in equity crowdfunding, financial projections and human capital signals significantly influence funding success. In contrast, donation-based crowdfunding may rely more heavily on signals related to social impact and mission alignment (Calic and Mosakowski, 2016) [5].

Proposition 1: Social enterprises using equity crowdfunding will exhibit stronger project quality signals, particularly in terms of financial projections and human capital, compared to those using donation-based crowdfunding.

2. Social Capital and Networks:

Social Capital Theory (Lin, 2001) [12] plays a crucial role in crowdfunding success. The entrepreneur's network size, quality of connections, and social media engagement can significantly impact campaign outcomes. Colombo *et al*. (2015) [6] found that internal social capital (within the crowdfunding platform)

positively affects the success of crowdfunding projects, especially in the early stages of a campaign. For social enterprises, the concept of social capital extends beyond personal networks to include relationships with beneficiaries, partners, and other stakeholders in the social sector. These relationships can provide credibility and support for the venture's social mission. The impact of social capital may differ between donation-based and equity crowdfunding. In donation-based models, strong social ties and community support might play a more significant role, as backers are often motivated by social or emotional connections to the cause (Gerber and Hui, 2013) [10]. In equity crowdfunding, while social capital remains important, professional networks and third-party endorsements might carry more weight (Vismara, 2016) [17].
Proposition 2: The positive effect of social capital on crowdfunding success will be stronger for donation-based crowdfunding compared to equity crowdfunding in social enterprises.

3. Project and Campaign Characteristics:
Several project and campaign-specific factors have been identified as important determinants of crowdfunding success. Mollick (2014) [14] highlighted the significance of funding goals, campaign duration, and project description quality. For social enterprises, additional factors such as the clarity of social mission and the ability to demonstrate potential impact are crucial.

a) **Funding Goals:** The target amount set for the campaign can significantly influence its success. Higher funding goals are generally associated with lower success rates, but this relationship may vary between donation-based and equity models (Lukkarinen *et al*., 2016).
b) **Campaign Duration:** While longer durations provide more time for fundraising, they may also signal a lack of confidence. The optimal duration may differ between models and project types (Frydrych *et al*., 2014).
c) **Project Description and Presentation:** The quality and detail of project descriptions, including visual elements like videos and images, can significantly impact campaign success (Koch and Siering, 2015).
d) **Social Mission Clarity:** For social enterprises, clearly articulating the social mission and its alignment with the project is crucial, especially in donation-based crowdfunding (Calic and Mosakowski, 2016) [5].
e) **Impact Measurement:** The ability to demonstrate potential social impact through clear metrics or indicators can be particularly important for social enterprise crowdfunding (Lehner, 2013) [11].

Proposition 3: The clarity of social mission and the ability to demonstrate potential social impact will have a stronger positive effect on donation-based crowdfunding success compared to equity crowdfunding for social enterprises.

4. Platform and External Factors:
The role of crowdfunding platform managers in building trust between entrepreneurs and backers/investors is crucial, especially in equity crowdfunding (Cumming *et al*., 2019). Platform characteristics such as user interface, support services, and community features can influence campaign outcomes. External factors, including media coverage, regulatory environment, and broader economic conditions, can also impact crowdfunding success. For social enterprises, factors such as public awareness of social issues and policy support for social innovation may play a significant role. The digital nature of crowdfunding platforms facilitates personal interactions and information dissemination. This can influence campaign outcomes differently in donation-based and equity models. In donation-based crowdfunding, platforms that enable storytelling and emotional connections might be more effective. For equity crowdfunding, platforms that provide detailed financial information and due diligence support may be more crucial (Block *et al*., 2018) [4].
Proposition 4: The impact of platform features on crowdfunding success will differ between donation-based and equity models, with donation-based platforms benefiting more from features that facilitate emotional connections and storytelling, while equity platforms benefit more from features supporting financial analysis and due diligence.

5. Herding Behaviour:
Based on Information Cascade Theory (Bikhchandani *et al*., 1992) [3], early funding momentum and the number of early backers can significantly influence campaign success. This effect, often referred to as herding behaviour, has been observed in various crowdfunding contexts (Zhang and Liu, 2012) [19]. In donation-based crowdfunding, herding may be driven more by social proof and emotional factors. In equity crowdfunding, while social proof remains relevant, the herding effect might also be influenced by perceptions of financial viability and potential returns (Vismara, 2018) [18]. For social enterprises, the herding effect might be moderated by the strength of the social mission and the perceived authenticity of the venture's commitment to social impact.
Proposition 5: Herding behaviour will have a stronger influence on donation-based crowdfunding compared to equity crowdfunding for social enterprises, particularly for projects with a clear and compelling social mission.

6. Stakeholder Engagement and Governance:
Stakeholder Theory (Freeman, 1984) [8] is particularly relevant for social enterprises, which often have to balance the interests of multiple stakeholders, including beneficiaries, funders, and partners. The choice between donation-based and equity crowdfunding can significantly impact stakeholder relationships and governance structures. In donation-based crowdfunding, backers typically have limited formal influence over the venture's decisions but may expect high levels of transparency

and impact reporting. In equity crowdfunding, investors become shareholders, potentially influencing the venture's strategic direction and creating new governance challenges (Mochkabadi and Volkmann, 2020) [13]. For social enterprises, maintaining mission alignment while accommodating new stakeholders (especially equity investors) can be a significant challenge. The governance implications of different crowdfunding models may influence both short-term campaign success and long-term organizational outcomes.

Proposition 6: Social enterprises using equity crowdfunding will face greater challenges in maintaining mission alignment and stakeholder balance compared to those using donation-based crowdfunding, particularly in the long term.

Outcomes

1. **Short-term: Funding Success**

- Measured by achieving funding goals or the amount raised
- Success rates and funding amounts may differ systematically between donation-based and equity models for social enterprises

2. **Long-term: Venture Sustainability and Social Impact**

- Post-campaign financial performance: Growth, profitability, and ability to attract follow-on funding
- Achievement of social mission objectives: Impact metrics, beneficiary outcomes, and mission drift
- Organizational development: Team growth, partnerships, and scaling of operations

The long-term outcomes may be influenced by the choice of crowdfunding model, with potential trade-offs between financial sustainability and social impact.

Proposition 7: Social enterprises that successfully raise funds through equity crowdfunding will demonstrate higher long-term financial sustainability but may face greater challenges in maintaining their social mission compared to those using donation-based crowdfunding.

This conceptual model offers a comprehensive framework for understanding donation-based and equity crowdfunding for social enterprises. By incorporating multidisciplinary perspectives, it highlights the impact of crowdfunding model choice on short-term funding success and long-term outcomes.

Theoretical Propositions and Analysis

Based on our conceptual model, we have developed a series of theoretical propositions that address the comparative aspects of donation-based and equity crowdfunding for social enterprises. These propositions consider both short-term funding success and long-term outcomes. In this section, we will elaborate on each proposition, provide a rationale based on existing literature, and discuss potential implications.

Proposition 1: Quality Signaling

Social enterprises using equity crowdfunding will exhibit stronger project quality signals, particularly in terms of financial projections and human capital, compared to those using donation-based crowdfunding.

Rationale

This proposition is grounded in Signaling Theory (Spence, 1973) [16] and the concept of information asymmetry in financial markets. In equity crowdfunding, investors take on financial risk with the expectation of returns, necessitating more robust signals of project quality and potential profitability. Ahlers *et al*. (2015) found that in equity crowdfunding, financial projections and human capital signals significantly influence funding success. In contrast, donation-based crowdfunding relies more on emotional appeals and social impact potential. Calic and Mosakowski (2016) [5] demonstrated that sustainability orientation positively affects funding success in reward-based crowdfunding, which shares similarities with donation-based models.

Analysis

The differing nature of backer motivations in these two models likely drives this divergence in signaling behavior. Equity crowdfunding investors, being motivated by both financial and social returns, require more comprehensive information about the venture's financial viability and the team's capability to execute the business plan. Social enterprises engaging in equity crowdfunding may need to develop more sophisticated financial models and highlight the professional experience of their team members. On the other hand, social enterprises using donation-based crowdfunding may focus more on communicating their social mission and potential impact, with less emphasis on detailed financial projections or team business acumen. This doesn't imply that these factors are unimportant in donation-based crowdfunding, but rather that their relative importance may be lower compared to equity crowdfunding.

Implications

Social entrepreneurs need to carefully consider their signaling strategy based on their chosen crowdfunding model. Those opting for equity crowdfunding should be prepared to provide more detailed financial information and emphasize their team's business capabilities, in addition to their social mission. This may require additional resources and expertise in financial modeling and business planning.

Proposition 2: Social Capital

The positive effect of social capital on crowdfunding success will be stronger for donation-based crowdfunding compared to equity crowdfunding in social enterprises.

Rationale

Based on Social Capital Theory (Lin, 2001) [12] and crowdfunding research, internal social capital within platforms positively affects project success, especially early on (Colombo *et al*., 2015) [6]. For social enterprises, social capital includes relationships with beneficiaries, partners, and stakeholders, providing credibility and support.

Analysis

In donation-based crowdfunding, backers are motivated by social or emotional connections (Gerber and Hui, 2013) [10]. Strong social ties and community support are crucial for spreading awareness and encouraging contributions. The entrepreneurs' and enterprises' social network significantly influences the campaign's reach and legitimacy. While social capital is important in equity crowdfunding, its relative importance is lower compared to factors like financial projections and market potential. Professional networks and endorsements might carry more weight (Vismara, 2016) [17]. Equity investors seek blended value, balancing social mission with financial returns.

Implications:

Social enterprises using donation-based crowdfunding should build and leverage their social networks, engage with their community, collaborate with social organisations, and share their story through various channels. For equity crowdfunding, social enterprises should build relationships with professional investors, industry experts, and financial intermediaries, balancing social impact communication with demonstrating business acumen and growth potential.

Proposition 3: Social Mission Clarity and Impact Demonstration

The clarity of social mission and the ability to demonstrate potential social impact will have a stronger positive effect on donation-based crowdfunding success compared to equity crowdfunding for social enterprises.

Rationale:

Research shows sustainability orientation positively affects reward-based crowdfunding success (Calic & Mosakowski, 2016) [5] and emphasizes the importance of demonstrating potential social impact in social enterprise crowdfunding (Lehner, 2013) [11].

Analysis

In donation-based crowdfunding, backers are motivated by supporting a cause or creating social impact. Clear articulation of the social mission and demonstrating potential impact drive funding decisions. Social enterprises that effectively communicate their theory of change and measurement strategies are more successful in attracting donors. While important in equity crowdfunding, social mission and impact are balanced against financial considerations. Equity investors seek "blended value" (Emerson, 2003), making social mission less directly influential on funding success.

Implications

Donation-based crowdfunding requires significant effort in articulating social mission, theory of change, and expected impact. Developing clear impact metrics and storytelling strategies is essential. Equity crowdfunding requires balancing social impact communication with demonstrating financial viability and growth potential, necessitating comprehensive reporting strategies.

Proposition 4: Platform Features

The impact of platform features on crowdfunding success will differ between donation-based and equity models, with donation-based platforms benefiting more from features that facilitate emotional connections and storytelling, while equity platforms benefit more from features supporting financial analysis and due diligence.

Rationale

This proposition is based on research that crowdfunding platform design affects funding outcomes, with donation-based models benefiting from emotional engagement and equity models from financial analysis support (Block *et al*., 2018) [4].

Analysis

Donation-based crowdfunding platforms that facilitate storytelling and emotional connections, like rich media integration and social sharing, are more effective for social enterprises. Showcasing beneficiary stories and real-time impact updates is valuable. For equity crowdfunding, platforms with detailed financial information and due diligence support, such as financial document repositories and Q&A forums, influence investor confidence.

Implications

Social enterprises using donation-based crowdfunding should choose platforms with strong storytelling capabilities and social sharing features and prepare compelling content. For equity crowdfunding, they should select platforms offering robust financial reporting tools and facilitate thorough due diligence, providing detailed financial and operational information and engaging in formal investor communications.

Proposition 5: Herding Behavior

Herding behavior will have a stronger influence on donation-based crowdfunding compared to equity crowdfunding for social enterprises, particularly for projects with a clear and compelling social mission.

Rationale

This proposition is based on Information Cascade Theory (Bikhchandani *et al*., 1992) [3] and empirical observations of herding behavior in crowdfunding (Zhang and Liu, 2012). The social nature of donation-based crowdfunding and the emotional appeal of social causes may amplify herding effects.

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Analysis

In donation-based crowdfunding, herding may be driven more by social proof and emotional factors. Early momentum in a campaign can signal the worthiness and popularity of a cause, encouraging others to join in supporting it. The clear social mission of social enterprises can create a sense of collective action, further amplifying herding effects. While herding behavior also exists in equity crowdfunding, it may be moderated by more rational economic considerations. Equity investors, while influenced by social proof, are likely to conduct more individual due diligence given the financial stakes involved. The herding effect in equity crowdfunding might be more influenced by perceptions of financial viability and potential returns (Vismara, 2018) [18].

Implications

Social enterprises using donation-based crowdfunding should focus on building early momentum in their campaigns. This could involve pre-launch engagement with core supporters, strategic use of social media, and creating a sense of urgency or collective action around the social cause. For equity crowdfunding, while early momentum remains important, social enterprises should be prepared for a potentially more extended and scrutinized funding process. They may need to engage more directly with potential investors and provide ongoing updates and information throughout the campaign.

Proposition 6: Governance and Mission Alignment

Social enterprises using equity crowdfunding will face greater challenges in maintaining mission alignment and stakeholder balance compared to those using donation-based crowdfunding, particularly in the long term.

Rationale

This proposition is grounded in Stakeholder Theory (Freeman, 1984) [8] and research on the governance challenges faced by social enterprises (Ebrahim *et al*., 2014) [7]. The introduction of equity investors creates new stakeholders with potentially divergent interests from the social mission.

Analysis

In donation-based crowdfunding, backers typically have limited formal influence over the venture's decisions but may expect high levels of transparency and impact reporting. The alignment between the social enterprise's mission and its funders' motivations is often strong, as donors are primarily motivated by the social cause. In equity crowdfunding, investors become shareholders, potentially influencing the venture's strategic direction. This can create tensions between pursuing social impact and ensuring financial returns. The governance implications of equity crowdfunding may influence both short-term campaign success and long-term organizational outcomes.

Implications

Social enterprises considering equity crowdfunding need to carefully design their governance structures to maintain mission alignment while accommodating investor interests. This might involve creating special share classes, establishing mission locks, or developing comprehensive impact reporting mechanisms. Those using donation-based crowdfunding should focus on maintaining transparent communication with their backers about social impact and use of funds, but may have more flexibility in organizational decision-making.

Proposition 7: Long-term Outcomes

Social enterprises that successfully raise funds through equity crowdfunding will demonstrate higher long-term financial sustainability but may face greater challenges in maintaining their social mission compared to those using donation-based crowdfunding.

Rationale

This proposition is based on the differing nature of the two funding models and their long-term implications for social enterprises. It draws on research about the growth trajectories of social enterprises and the challenges of balancing financial sustainability with social impact (Battilana and Lee, 2014) [1].

Analysis

Equity crowdfunding provides social enterprises with capital that doesn't need to be repaid, potentially offering more financial flexibility compared to loans. It may also bring in investors who can provide valuable business expertise and networks, contributing to financial sustainability. However, the pressure to provide financial returns to investors may create tensions with the social mission over time. Donation-based crowdfunding, while potentially providing less capital, doesn't create the same pressures for financial returns. This may allow social enterprises more freedom to focus on their social mission. However, relying solely on donations may limit growth potential and long-term financial sustainability.

Implications

Social enterprises must consider long-term goals and the trade-offs between financial growth and mission focus when choosing a crowdfunding model. Equity crowdfunding requires balancing investor expectations with social impact through clear communication, investor selection, and impact reporting. Donation-based crowdfunding focuses on building a sustainable donor base and exploring diverse revenue streams. Ongoing engagement and impact communication are crucial for maintaining donor support. Careful consideration of the crowdfunding model is essential for short-term funding success and long-term outcomes. Future research can provide valuable insights for social entrepreneurs, investors, and policymakers in the social finance ecosystem.

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DISCUSSION

The conceptual model and theoretical propositions developed in this paper provide a comprehensive framework for understanding the dynamics of donation-based and equity crowdfunding in social enterprises. This model contributes to existing literature by integrating multiple theoretical perspectives and addressing the unique challenges faced by social enterprises in their fundraising efforts.

One of the key strengths of this model is its recognition of the multifaceted nature of crowdfunding for social enterprises. By incorporating elements from Signaling Theory, Social Capital Theory, Stakeholder Theory, and Information Cascade Theory, the model offers a nuanced understanding of how different factors interact to influence crowdfunding outcomes. This interdisciplinary approach aligns with recent calls for more holistic examinations of social entrepreneurship financing (Lehner, 2013; Mochkabadi & Volkmann, 2020) [11, 13].

The propositions developed in this paper highlight important distinctions between donation-based and equity crowdfunding models in the social enterprise context. Proposition 1 suggests that equity crowdfunding requires stronger project quality signals, extending traditional entrepreneurship literature's emphasis on signaling to reduce information asymmetry (Ahlers *et al*., 2015) to the unique context of social enterprises. Propositions 2 and 3, focusing on social capital and social mission clarity, underscore the importance of non-financial factors in crowdfunding success. These propositions build on the work of Calic and Mosakowski (2016) [5] and Colombo *et al*. (2015) [6], comparing donation-based and equity models explicitly. The emphasis on social factors aligns with the growing recognition of social capital's importance in entrepreneurial finance (Gedajlovic *et al*., 2013) [9].

Proposition 4 addresses an often-overlooked aspect of crowdfunding research: platform features. By proposing different optimal features for donation-based and equity platforms, this paper contributes to the emerging literature on crowdfunding platform design (Belleflamme *et al*., 2015) [2] and its impact on funding outcomes. Proposition 5, on herding behavior, extends Information Cascade Theory to the social enterprise context, suggesting that the social nature of these ventures may amplify herding effects, particularly in donation-based crowdfunding. This insight contributes to understanding crowd behavior in social finance, an area with limited attention in the literature.

Propositions 6 and 7, addressing governance challenges and long-term outcomes, highlight the extended implications of crowdfunding model choice. These propositions align with research on governance challenges in hybrid organizations (Battilana & Lee, 2014) [1] and extend this work to crowdfunded social enterprises.

The model and propositions have important practical implications. For social entrepreneurs, they provide a framework for making informed decisions about crowdfunding strategies. For platform developers, the model suggests ways to tailor features to social enterprises' needs. For policymakers, the propositions highlight areas where targeted support or regulation may foster social enterprise crowdfunding growth.

However, empirical testing is necessary to validate and refine the propositions. The model assumes a clear distinction between donation-based and equity crowdfunding, while hybrid models are emerging. Additionally, the model's focus on social enterprises may limit its generalizability to other ventures, as the dual mission of social impact and financial sustainability creates specific dynamics not applicable to purely commercial or charitable organizations.

CONCLUSION

This paper presents a conceptual model for understanding donation-based and equity crowdfunding in social enterprises. By integrating multiple theoretical perspectives and developing seven key propositions, it provides a framework for analyzing factors influencing crowdfunding success and long-term outcomes. The model highlights distinctions between the crowdfunding models, such as quality signaling requirements, social capital's role, and social mission clarity. These insights offer practical guidance for social entrepreneurs, platform developers, and policymakers. While the model provides a foundation for understanding these dynamics, empirical research is needed to test and refine the propositions, explore hybrid crowdfunding approaches, and examine long-term outcomes for social enterprises.

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