

# The Sustainability Advantage: The Positive Effect of a Sustainability Orientation on Online Funding Success

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## *Abstract*

*With the needs of social entrepreneurs being unmet or underserved by traditional capital markets, crowdfunding offers a distinct avenue for acquiring resources that may exhibit a preference for funding social entrepreneurs over commercial-only entrepreneurs. In crowdfunding, sustainability oriented ventures are more likely to successfully reach their funding targets. The congruence between the entrepreneur's and crowd's values, endorsements by independent third parties, and project creativity positively affect funding outcomes.*

## **Introduction**

While social entrepreneurship – entrepreneurship that balances economic, social, and environmental wealth – continues to grow in importance and number, it remains constrained by access to financial resources.<sup>1</sup> Compared to profit-focused or commercial-only ventures, ventures pursuing social initiatives face difficulties in accessing funding. Whereas for-profit ventures can attract the attention of commercial lenders or private equity investors, social ventures appear less attractive because they seek to recruit resources for social and environmental good, rather than just for financial returns.

The dearth of support from capital markets for social entrepreneurship stands in contrast to the increasing societal support for sustainable businesses. The popularity of books like David Bornstein's *How to Change the World: Social Entrepreneurs and the Power of New Ideas* and Muhammed Yunus's *Building Social Business: The New Kind of Capitalism that Serves*

*Humanity's Most Pressing Needs* are just a few of the illustration of how popular culture has embraced the notion of social entrepreneurship.<sup>2,3</sup>

With traditional financial institutions being generally incompatible with ventures that seek to address social and environmental ills, it is reasonable to predict the emergence of new financial institutions that parallel societal support for social ventures. This has happened with a relatively novel and increasingly important source of capital: online crowdfunding.<sup>4</sup> With the needs of social entrepreneurs being unmet or underserved by traditional capital markets, crowdfunding offers a distinct avenue for acquiring resources that may exhibit a preference for funding social entrepreneurs over commercial-only entrepreneurs.

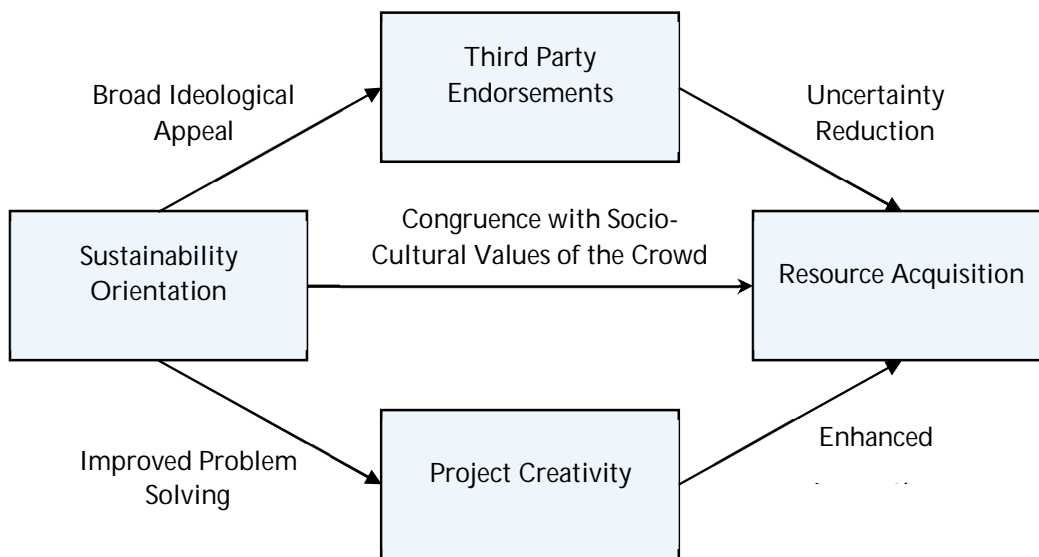
Overall, the financial influence of the crowdfunding sector is difficult to measure, but, according to crowdfunder.com, the global funding volume in 2015 was around US\$34.4 billion with millions of successfully crowdfunded projects. By the end of 2016 crowdfunding is on track to account for more total funding than the entire venture capital industry.<sup>5</sup>

Crowdfunding platforms create financial opportunities for early-stage ventures by distributing the funding decision to a large number of relatively small contributors. The effect is a funding dynamic between entrepreneurs and investors that is different from the dynamic in traditional capital markets. Some platforms, such as Kickstarter, are reward-based and, as a result, shift the venture funders' motivations from pecuniary returns to other types of benefits, such as the creativity of the reward or social appeal of the project. Based on the characteristics of crowdfunding and its differences from traditional capital markets, entrepreneurs that pursue a sustainability orientation may experience greater levels of success relative to commercial-only entrepreneurs. In other words, within the context of online crowdfunding a sustainability orientation is a competitive advantage.

In our studies of crowdfunding, three factors were responsible for the funding success of sustainably oriented ventures over their for-profit counterparts.<sup>6</sup> The first was the congruence between the entrepreneur's and crowd's values. Funders will often donate money, or more money than is necessary for the reward, because they believe in or share the entrepreneur's goals. The second was endorsements by independent third parties, such as magazines, websites, and journalists. By adopting a mix of social and commercial strategies, social ventures drew upon a wider range of values and were more likely to appeal to endorsers. Endorsements increased the visibility and legitimacy of sustainability oriented ventures. The third was

more innovative rewards and products. Adopting a sustainability orientation encouraged the entrepreneur to confront tensions between economic and social performance, which lead to improved problem framing and enhanced innovation. These relationships are illustrated in Figure 1. In the next sections I explore these factors in more detail.

**Figure 1.** The direct and indirect relationships between a sustainability orientation and resource acquisition



### **Congruence with Socio-Cultural Values of the Crowd**

For reward-based crowdfunding the desirability of both the rewards offered and the venture's mission strongly influence financial contributions from funders. Reward-based crowdfunding can be seen as treating funders like customers with benefits, such as providing funders with early access to products or access to products with better prices. In addition, crowdfunding often donate money, or more money than necessary to receive a reward, because they believe in or share the entrepreneur's goals. When the socio-cultural values represented by the crowd frequenting a particular crowdfunding platform, as well as the crowd's beliefs and assumptions about the causes and solutions to different social needs, match those of the venture, funding success will be positively influenced.<sup>6</sup>

The preferences and values of the crowd are fluid and represent moving targets. People around the globe, or even within a single context, such as one crowdfunding platform, do not uniformly support the efforts of entrepreneurs possessing a sustainability orientation. For instance, the ideology behind the title of Milton Friedman's widely-cited 1970 NY Times article – “The Social Responsibility of Business is to Increase its Profits” – is entrenched in many belief systems about the optimal interplay of business, society, and government.<sup>7</sup> Therefore, the relevant question becomes *what is the loose ideology of the crowdfunders?* Similarly, it seems obvious that not all social and environmental problems are viewed as equally legitimate and feasible because of political and social constraints. For example, the social cause of ‘fighting poverty’ is likely to be viewed as more legitimate than ‘eliminating prejudice against or stereotypes about having blond hair’. To explore differences in values we disentangle a sustainability orientation into addressing social and environmental ills.

We found that an entrepreneur's goals and ideology, values, and beliefs implied or associated with these goals influenced funding success. In some cases, the effect was astoundingly strong. Technology projects adopting an environmental sustainability orientation were 505% more likely to reach their funding goal than were similar technology projects not adopting an environmental orientation. The positive effect was not as pronounced for technology projects adopting a social sustainability orientation, which were 114% more likely to reach their funding goal than were similar technology projects not adopting that orientation. Even within one project category (technology projects) on one crowdfunding platform (Kickstarter.com), the type of sustainability orientation had a significant effect on the ability of entrepreneurs to mobilize financial resources.

We also found inter-category differences. While both social and environmental sustainability orientations were important predictor of technology projects' funding success, only a social orientation improved the likelihood projects from the film and video category reach their funding goal. Film and video projects adopting a social sustainability orientation were 113% more likely to reach their funding goals than were profit-only projects within the same category. While a sustainability orientation does meaningfully improve the success of new ventures seeking crowdfunding, the effect is category and sustainability orientation specific.

### **Uncertainty Reduction**

External legitimacy reduces uncertainty about the success and survival of firms. As such, acquiring external legitimacy is important for new ventures in general and for entrepreneurial resource mobilization in particular. Mobilization of resources is a challenge for new ventures because they lack the credibility and proven track record of established businesses. In our study, adopting a sustainability orientation enhanced a venture's external legitimacy through endorsements by independent third parties. Drawing upon ideological values of creating collective social good combined with pro-business and pro-market values creates a unique hybrid form of social enterprise that appeals broadly and, as a result, garners endorsement.

Because potential crowdfunders receive only limited and often self-reported information from entrepreneurs and because nascent ventures often lack social capital that funders would value, the legitimacy conferred by independent endorsement serves to mitigate the information asymmetry between the project creator and the potential funders. In our study, technology projects adopting an environmental sustainability orientation received 26% more endorsements from independent third parties than other technology projects. Endorsed technology projects were 39% more likely to reach their funding goal. Third party endorsements may serve as important signals of the viability of projects and reduce the uncertainty surrounding the project funder's assessment of a venture's likelihood to succeed. While third party endorsements were important in both technology and film and video categories, only in the technology category did a sustainability orientation increase the likelihood of being endorsed. While third party endorsements increased the funding success of film and video ventures by 68%, adopting a sustainability orientation did not increase the likelihood ventures within this category were endorsed.

Building legitimacy during early stages of a venture's formation is an important strategy because it helps attract investments. In the context of online crowdfunding, drawing on a wide range of ideological values by adopting a sustainability orientation may help to build legitimacy through endorsements by independent third parties.

### **Enhanced Innovation**

Creativity lies at the heart of entrepreneurship. Creativity refers to the development of products or processes that are both novel and useful. Something is judged novel when it is unusual and new; it is judged to be

useful when it has some social or economic value. Because they provide unique value, creative crowdfunding project ideas are more likely to appeal to funders than are ideas that are usual, conventional, or incrementally different from those currently available in the market.

In our study we asked expert judges, PhD students in design, engineering, and computer science, to rate the creativity of technology and film and video crowdfunding projects. In both categories, adopting a sustainability orientation enhanced expert rated creativity. Attempts to simultaneously maximize economic and social performance encouraged entrepreneurs to view problems from different, and sometimes contradictory, perspectives. Confronting different perspectives and tensions has been demonstrated to increase creative cognition, inventiveness, and improve problem solving.<sup>8</sup> Furthermore, the ideas required to create products or offer solutions that are sustainable socially, environmentally, and economically requires multiple frames of reference, lenses, contents, goals, and logics. Integrating these elements will promote creativity and result in more recombinations of information that should lead to the discovery of more useful and novel products.

Our results support the relationship between a sustainability orientation and creativity. Technology projects described by experts as more creative were 73% more likely to reach their funding goal. Film and video projects described as more creative were 50% more likely to reach their funding goal. For the technology category adopting an environmental and social orientation increase the creativity of projects by 36% and 20%, respectively. Film and video category projects adopting a social orientation were 43% more likely to be judged as creative by a panel of expert judges. Adopting an environmental orientation did not increase the likelihood film and video projects were judged as creative.

### **Conclusion**

An entrepreneur's ability to acquire resources influences the success of both commercial and social ventures. Traditional financial institutions have, however, been more generous with the former types of ventures, rather than the latter. New financial institutions, like crowdfunding, have emerged to address the increasing societal demand for and support for sustainable entrepreneurship. Within the context of these new institutions, sustainability oriented ventures have a competitive advantage: they are more likely to successfully reach their funding targets.

The distinction between Kickstarter categories and forms of sustainability orientation proved relevant in our study. These differences in our results highlight the likely context-specific nature of results that reflect upon the nature of crowdfunding. Not only might the values and beliefs of members of the crowd change over time, who participates in the crowd is also likely to change. We also see continual evolution and innovation among the types of crowdfunding platforms and their operational practices. Traditional capital sources, while influenced by changing legal requirements and other relatively exogenous factors, nonetheless, maintain relatively stable practices, preferences, and institutional arrangements. The preferences of crowdfunders and the structure of the crowdfunding industry instead represent moving targets. The implication is that while a sustainability orientation has important competitive implications for online resource mobilization, the effectiveness of such a strategy still depends on good managerial judgment.

### Author

*Goran Calic is an Assistant Professor of Strategic Management at McMaster University's DeGroote School of Business. He has professional experience in management consulting, project management, and market research. He holds a Ph.D. (in Strategic Management) and MBA from Purdue University's Krannert School of Management. His research focuses on understanding why some individuals are more creative and some organizations are more innovative than others. Professor Calic is particularly interested in conditions that result in the application of creative products, services, and processes. His work on creativity is published in leading academic journals and was awarded the 2015 Max Henri Boisot Award.*

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### Endnotes

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