Research Article

Crowdfunding and Social Capital: A Pathway for The Internationalization of MSMEs and Social Enterprises?

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Article history:
Submission March 2024
Revised April 2024
Accepted April 2024

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ABSTRACT

Micro and social entrepreneurs face multiple challenges, including limited access to funding, knowledge systems, networks, and markets, which limit the growth and development of their ventures. This study seeks to understand how the participation in crowdfunding and its utilization to internationalize can help micro and social enterprises address challenges through social capital. Through a narrative review of literature anchored on the resource-based and knowledge-based theories of the firm and the theory of social capital, this study finds that crowdfunding provides access to funding, knowledge systems, and networks. Moreover, the participation in crowdfunding provides access to large, international markets. However, despite these benefits, there remains challenges to micro and social enterprise participation in crowdfunding as there is low awareness and adoption in developing countries. Furthermore, there is still question on crowdfunding’s viability as an internationalization strategy. The study ends by identifying directions for future research.

Keywords: Crowdfunding, Knowledge-Based Theory, Research-Based Theory, Social Capital

Introduction

Crowdfunding is a novel method for funding a variety of new ventures, allowing individual founders of for-profit, cultural, or social projects to request funding from many individuals, often in return for future products or equity (Mollick, 2014). Crowdfunding provides an alternative funding strategy for entrepreneurs and organizations that typically have difficulty gaining access to traditional funding sources. Entrepreneurial success and organizational function rely on financial capacity and sustainability. Organizations need funding to maintain operations, expand services, or build up resources to develop economic resilience (Sontag-Padilla et al, 2012). Unfortunately, social enterprises, nonprofit organizations (NPOs), and startup businesses face financial sustainability challenges because of limited funding

How to cite:
resources (Cosh et al., 2009; Sontag-Padilla et al., 2012).

According to one estimate, there may be as many as 164,473 social enterprises in the Philippines, constituting 17% of the 987,974 registered companies. Of these social enterprises, 70% operate as micro, small, and medium-sized enterprises (MSMEs), 23% as nongovernment organizations, and 6% as cooperatives. These figures are based on a definition of social enterprises that includes financially unsustainable entities. Most social enterprises remain limited in size and scale due to critical gaps in (i) access to capital, (ii) innovative financial mechanisms to unlock additional capital, (iii) ecosystem knowledge of social enterprises, and (iv) data on social enterprise impact (Ito & Shahnaz, 2019).

Current literature contends that crowdfunding provides these three key non-financial benefits: (1) consumer insight, (2) market exposure, and (3) a product development mechanism (Agrawal et al., 2011; Belleflame et al., 2014; Lehner et al., 2015; Mollick & Kuppuswamy, 2014). These benefits incentivize project owners to not only participate in but also, more importantly, succeed in crowdfunding (Agrawal et al., 2014). However, despite benefits of crowdfunding in addressing resource challenges, there are few studies that discuss crowdfunding in the context of MSMEs (Paoloni et al., 2019).

Crowdfunding provides an alternative venture creation process (Vergara, 2019), distinct from the traditional venture creation process (Bhave, 1994). More importantly, crowdfunding alters the role of the consumer—they are no longer mere buyers, but are also co-producers and investors (Vergara, 2019). In essence, crowdfunding brings products closer to the market, facilitating not just purchase but also feedback for the product and funding for the venture. Crowdfunding provides ventures the funding and knowledge they need to develop and produce a product that the market will buy.

Crowdfunding may also be an alternative pathway for the internationalization of MSMEs (Troise et al., 2023), just as how venture capital helps firms internationalize (Fernhaber et al., 2009; Mäkelä & Maula, 2005). Despite crowdfunding’s internationalization potential, it has received little attention in international entrepreneurship literature (Maula & Lukkarinen, 2022). Given the important role of the growth and development of MSMEs in the growth and development of economies, it becomes crucial to understand how crowdfunding may facilitate the internationalization and growth of micro and social enterprises.

**Objectives of the Study**

Micro and social entrepreneurs face multiple challenges, including limited access to funding, knowledge systems, networks, and markets, which limit the growth and development of their ventures. This study seeks to answer the following research questions:

*RQ1: How may crowdfunding address resource challenges of MSMEs and social enterprises?*

*RQ2: How does crowdfunding support the internationalization of MSMEs and social enterprises?*

**Theoretical Framework**

To understand crowdfunding’s contribution to the growth and development of micro and social enterprises, this study is anchored on three important theories that are concerned with resources: Resource-Based Theory (RBT), Knowledge-Based Theory (KBT), and Theory of Social Capital. According to RBT, a firm’s performance or competitive advantage rests on its ability to access and mobilize resources (Barney, 1986, 1991, & 2018). Similarly, the KBT asserts that a firm’s performance and growth depended on the knowledge that it acquires and integrates (Grant, 1996).

Crowdfunding taps into resources from the crowd. While funding is the initial motivation, crowdfunding provides market and consumer insight, a product development mechanism, and access to markets. These benefits stem from relationships built and nurtured with the crowd throughout and after the crowdfunding process. Crowdfunding essentially taps social capital. Thus, this study explores the crowdfunding venture creation process through the social capital theory.

Social capital comprises of social networks and the assets that can be obtained from it (Nahapiet & Goshal, 1998). Social capital facilitates...
coordination and communication, it builds and nurtures trust, it can be transmuted into financial capital, and it enhances the benefits of investment in physical and human capital (Putnam, 1993). Economies that exhibit high levels of social capital have been shown to produce high levels of output (Helliwell & Putnam, 1995). A large social network implies a sizeable level of social capital and that a large amount of assets may be obtained from it. In the crowdfunding context, campaigns that raise funding from many backers are exposed to large social networks, and therefore, a high level of social capital. Social capital, specifically social interactions, high levels of perceived project trustworthiness, and shared values within the community, plays a significant role in crowdfunding success (Madrazo-Lemarroy, 2019).

Furthermore, the role of social capital changes over time, and crowdfunding project owners are exposed to different types and dimensions of social capital through different stages of the crowdfunding process (Cai et al, 2021). For example, the early stage of crowdfunding promotes the accumulation of funding from the crowd, and then shifts to communication in the general campaign process (Cai et al, 2021). It has been shown that crowdfunding unlocks additional funding, access to wider knowledge ecosystems, and broader networks (Vergara & Vergara, 2023), which typically occurs in the later stages of the campaign or after the campaign has been completed.

**Methodology**

To understand how crowdfunding addresses the resource challenges of MSMEs and social enterprises and facilitates their internationalization, this study employs a narrative literature review. This type of review is valuable in linking and integrating different studies, supports the development of theory, and enables the identification of problems or gaps (Baumeister & Leary, 1997). Given the large research gaps and the dearth of articles on crowdfunding (Paoloni, 2019) and internationalization (Troise et al, 2023) in the context of MSMEs, this study carried out the search of articles through Google Scholar.

**Discussion**

**How may crowdfunding address resource challenges of MSMEs and social enterprises?**

Early literature on crowdfunding theorized that while crowdfunding intended to address funding challenges, its significant contribution is found in its non-financial benefits, which include access to markets and market exposure, consumer insight and feedback, a product development mechanism, and a product distribution alternative (Agrawal et al, 2011 & 2014; Belleflame et al, 2014; Lehner et al, 2015; Mollick & Kuppuswamy, 2014; Pekmezovic & Walker, 2016). Despite Lehner (2013) asserting that crowdfunding will benefit social enterprises, nascent literature remains scarce on understanding whether these benefits motivated MSMEs and social enterprises to launch crowdfunding campaigns of their own (Kukurba & Waszkiewicz, 2018; Paoloni et al, 2019).

Vergara and Vergara (2023) found that Philippine-based micro enterprises crowd-funded because they were motivated by leveraging on social capital to access funding, gain market exposure, gain consumer insight, to test initial product and generate feedback for product development, to access networks, to build community, and to gain access to external funding. On the other hand, Troise et al (2023) found that Italian SMEs valued access to knowledge systems and networks, which allowed them to access international markets. They leveraged on the knowledge systems that allowed them to understand and penetrate outside markets and used investor networks to access more resources. Crowdfunding is crucial for many SMEs in the innovation and development of products and in the improvement of their competitive advantage—innovation motivates SMEs from Iran, Italy, and UK, according to a study by Mahdiraji et al (2023).
Crowdfunding, in providing access to limited resources, is a strategic option for MSMEs and provides opportunities to internationalize (Troise et al, 2013). Through social interactions with the backers and trust-building through transparent communication of project details and updates (Madrazo-Lemarroy, 2019; Shahab et al, 2019), crowdfunding legitimizes the existence and operations of MSMEs and social enterprises (Maier et al, 2021). In doing so, these small firms attract the interest of professional investors to help secure external funding (Roma et al, 2017; Vergara & Vergara, 2023). These compound the impact of crowdfunding to MSMEs and social enterprises, contributing to their growth and development (Eldridge et al, 2019).

It is worth noting that MSMEs and social enterprises are not the only parties that benefit from crowdfunding. Crowdfunding democratizes access to investments (Pekmezovic & Walker, 2016), which provide ordinary consumer investors opportunities to participate in the economic activities of MSMEs and social enterprises. It allows ordinary consumers to discover and test out new product inventions, and the positive outcomes from these interactions lead consumers to result in positive outcomes that lead these consumers, in turn, to recommend products of MSMEs to others (Maier et al, 2021). Crowdfunding essentially provides consumer choice and active participation in the product development process typically assigned to firms.

How does crowdfunding support the internationalization of MSMEs and social enterprises?

This study found only one study that tackled the issue of MSME internationalization...
through crowdfunding. This highlights the research gap in this area. Troise et al (2023) contend that crowdfunding allows MSMEs to accumulate resources, access knowledge systems, and leverage on social networks to allow them to internationalize. Nevertheless, the study also notes that there are limitations to MSME use of crowdfunding to internationalize. Challenges include difficulties in shipping rewards and the limited volume of products to sell or export.

There are other barriers to internationalization through crowdfunding. One important aspect is the low awareness and adoption of crowdfunding in developing economies (Ismaila, 2023; Vergara, 2015). Many MSMEs do not know that there are alternative avenues for funding (Diego et al, 2021; Ismaila, 2023). To address this barrier, it’s important to create awareness about crowdfunding and how it can contribute to the growth and development of small firms. It also highlights the value of human capital development because it has been found that MSMEs with higher levels of knowledge are more likely to know funding alternatives that they can tap (Fatoki, 2015).

Extant literature also points to a particular investor behavior that may limit how crowdfunding supports internationalization. Studies have shown that there is a “home bias” among investors, where backers tend to favor crowdfunding projects within their borders (Lin & Viswanathan, 2013; Troise et al, 2023). Perhaps this phenomenon may be explained by the existing social capital within the project’s context. In some studies, local altruism, which stems from localized social capital, positively impacts crowdfunding success (Giudici et al, 2018). While this supports the value of social capital within crowdfunding, it also raises the question on whether social capital may ascend to a global scale to support the internationalization of MSMEs and social enterprises through crowdfunding.

In Shahab et al (2019), social capital was measured through social media following and social media engagement, which have been shown to influence project outcomes. This raises another question on whether social media interactions are robust measures of social capital. If so, how does social capital built on and through social media impact the growth and development of MSMEs that participated in crowdfunding?

One avenue that may be explored to understand how to scale social capital in international crowdfunding may be through strategic partnerships. Theokary et al (2023) has shown that crowdfunding projects that listed partners with a good history of success and high levels of entrepreneurial focus are likely to positively impact fundraising outcomes.

**Conclusion and Recommendations for Future Research**

MSMEs and social enterprises face many problems, including access to limited resources. Literature has shown that crowdfunding may address these challenges by leveraging on social capital. The accumulation and integration of much needed resources, specifically funding, knowledge, and networks, may improve the performance of MSMEs and social enterprises, leading to their growth and development. Nevertheless, extant literature exploring crowdfunding in the context of MSMEs and social enterprises remain few. Given the benefits of crowdfunding, this is an area that scholars should continue to explore.

Another research area to explore is to understand why there seems to be low awareness and adoption on crowdfunding in developing countries. Despite the popularity of crowdfunding platforms, including Kickstarter and Indiegogo, many MSMEs and social enterprises that would benefit the most from these platforms do not participate in crowdfunding.

Furthermore, literature has exhibited that crowdfunding potentially provides opportunities for MSMEs and social enterprises to access larger markets internationally. Nevertheless, extant literature is still inadequate in explaining how crowdfunding supports internationalization, particularly on how MSMEs and social enterprises can leverage on and scale social capital to reach larger markets. Extant literature shows that backers tend to support projects within borders. It would be interesting to explore social capital from a global scale.

Extant literature point towards the value that crowdfunding provides. Given the role of MSMEs and social enterprises in the economic fabric of a nation, it is crucial to further our
understanding of crowdfunding and how it can help enhance access to much needed resources.

References


