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## Classic Crowdfunding - A Modern Source of Financing?

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**Abstract:**

**Purpose:** The paper aims to define the author's definition of classical crowdfunding on the example of the *wspieram.to* platform - one of the most frequently used in this model and presenting arguments that this form of financing is modern.

**Design/Methodology/Approach:** The paper was prepared based on an analysis of the content of documents and secondary data.

**Findings:** The argumentation presented in the paper allows us to state that crowdfunding is a modern and low-cost form of financing companies.

**Practical Implications:** In practice, both start-ups and those operating on the market for some time have always faced the problem of obtaining external financing. Therefore, it is worth taking advantage of social funding (crowdfunding), an alternative to traditional sources such as credit or leasing.

**Originality/Value:** The originality of the article is an attempt to define the crowdfunding phenomenon.

**Keywords:** Crowdfunding, community support, community funding, social funding, source of funding.

**JEL classification:** M21, G23

**Paper Type:** Research Paper.

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## **1. Introduction**

Classic crowdfunding<sup>2</sup> is a form of external financing that supports everything that the communities (future consumers, prosumers) like. So, in practice, you can apply for funding for almost anything legal. The crowd supports various projects such as games, electronic gadgets, and accessories for travelers, but the fundraisers are also organized to finance an album or organize a tour or make a film. Users visiting crowdfunding portals get acquainted with the descriptions of projects whose authors need financial support to carry out a specific project and make small payments through the portal, mainly in the range of PLN 50 to PLN 100. Even though the payments seem to be at a low level, it is not the amount of support provided but its mass, because if 100 people pay in PLN 100 each, we will raise 10 thousand zlotys. A person wishing to obtain support from Internet users offers them certain benefits in return for making payments, depending on the amount of support. It can be a ready-made product or a discount on its purchase, a conversation or meeting with a band singer, premiere tickets, mugs, pens, or personal thanks. In principle, anything that will prompt the future consumer to support this project is acceptable.

The paper aims to define traditional crowdfunding on the example of the support to the platform - one of the most frequently used in this model and presenting the arguments that this form of financing is modern. The paper is divided into four parts. The first part presents the definition of the issue, the second one presents the progress of the crowdfunding process and discusses its advantages and disadvantages. The third one shows the size of the support provided on the example of the wspieram.to the platform, which is one of the most dynamically developing platforms. The fourth one presents arguments confirming that crowdfunding is a modern funding source and proposes the author's original definition. The paper was prepared based on an analysis of the content of documents and secondary data.

## **2. Defining the Issue**

From the beginning, the development of art and culture depended on people willing to support it and present it to a broader audience. Outstanding creators became outstanding not only because they created unique works but also because they sold them to influential people. Therefore, the beginnings of crowdfunding can be found in the music industry. The oldest example of public funding is a collection conducted by the Marillion band, who raised 60 thousand dollars for their concert tour in the 1990s (marketingbiznes.pl).

In response to fans' expectations, in 2001, a platform created by Brain Camelio, called ArtistShare.net, was created, thanks to which artists could raise funds from their admirers for various music projects. In return for their support, fans supporting artists on this platform received discounts on albums and some additional materials. This

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<sup>2</sup>*Due to the limited size of this paper, other crowdfunding models and their legal aspects will be thoroughly discussed in another publication of my authorship.*

was, therefore, the first manifestation of the award-based model. The construction of the Statue of Liberty was also primarily financed by public funding. Joseph Pulitzer announced in his newspaper that anyone who pays 1 or 5 dollars would receive a miniature replica of the Statue of Liberty, 6 or 12 inches, respectively.

Crowdfunding is a combination of the words crowd and funding. It is a form of financing various projects by a "crowd." Crowd, in other words: digital crowd, 2.0 crowd, network society - is a spontaneous association of conscious, resourceful, and creative Internet users, formed by any demographic group. Thus, "(...) the gathering of financial resources from the "crowd" is the basis on which everything else depends and is created." (Dziuba, 2015). Another term for crowdfunding is "social funding."

Social funding is an innovative funding model that enables entrepreneurs to raise funds for a specific business venture through an "open invitation" to the public. This is usually done through an online platform adapted to the supply and demand for financing. (Europa link). According to the National Centre for Research and Development (NCBIR), crowdfunding is "social funding of raising funds from many people for a specific project." On the other hand, Scott Steinberg believes that "this is a procedure for obtaining donations from the public, enabling the accumulation of capital necessary for the implementation of new projects" (Steinberg, 2012).

Crowdfunding means community (social) funding (via the Internet) of various projects, including innovative projects, business, culture, art, sport, media. This author clarifies that this is "a type of raising and allocation of capital transferred to the development of a particular project in exchange for a specific repayable benefit, which involves a wide range of capital providers, characterized by the use of ICT and a lower entry barrier and better transaction conditions than those generally available on the market" (Kozioł-Nadolna, 2015).

Given the above considerations, the word "crowdfunding" itself is challenging to translate into Polish; there is no ideal equivalent to define its essence. One of the most popular and most frequently cited definitions of crowdfunding in Poland was created by Karol Król, Vice President of the Polish Crowdfunding Society. Karol Król claims that crowdfunding is a kind of gathering and allocation of capital donated to the development of a particular undertaking in exchange for specific repayable benefits, which involves a group of capital providers. Its characteristic feature is that it is done using information and communication technologies and allows for better transactional conditions than those generally available on the market. In August 2010, Karol Król, on his blog, put forward a proposal to explain the term in Polish as "social finance 2.0".

However, even according to its author, this name was misleading and did not fully convey the meaning of crowdfunding. Currently, Karol Król describes crowdfunding as "social funding." (Pluszyńska and Szopny, 2018). Bartosz Malinowski and Marcin Giełzak proposed defining it in an interesting way. They claim that crowdfunding is "financing by the (digital) crowd, Crowd 2.0". According to them, it is a broader

concept than society, and it defines a multitude of people who have nothing in common but who, through their contributions to a given activity, add more communities to each other, thus creating a Crowd. (Pluszyńska and Szopny, 2018). The definitions have common elements, among which we should mention first: (Malinowski and Gielzak, 2015):

- crowd support is always financial,
- the collection is always carried out via the Internet,
- there are repayable benefits, i.e., supporters receive different types of prizes for their contributions,
- the campaign financed by the crowd is always open on two levels. Firstly, financial support can be provided from any place and can be of any amount. Secondly, transparency of information is practiced - we know by whom the money is collected, for what purpose and what amount of money is to be collected in the end,
- the action is conducted within a specific time frame, i.e., it is closed after a certain period.

### **3. The Course of the Crowdfunding Process and its Advantages and Disadvantages**

The main reason for the growing interest in crowdfunding is its intuitive and straightforward mechanism. In return for certain benefits, the crowd supports a given project with payments of any amount. Therefore, it can be concluded that it is a pre-sale activity for the prosumer (the future consumer involved in creating services/goods/products at an early stage of their creation). Due to the diverse crowdfunding models, support may also be about getting shares in a project, but the crowd often supports various projects for fun. In the literature on the subject, we encounter four stages of this process, but they differ. Malinowski and Gielzak (2015), specify 4D as:

- (1) target indication (Define) – the project provider precisely indicates the aim or aims of the action (product, event, artwork, service);
- (2) project presentation (Design) - the project provider presents the campaign to the public using the mass media (usually YouTube, because it is free) but also uses video presentations, graphics, written content. At this stage, it offers potential sponsors various types of gratuities, which usually depend on the size of their deposits;
- (3) campaign development (Develop) - the project provider monitors the campaign, performing at this stage several activities related to, among others, the current promotion, soliciting further contributions, communication with the media, partners and, above all, with the "crowd" that supports him;
- (4) implementation of the project (Deliver) - starts on the last day of the campaign and consists of meeting the project provider's specific goals and sending out prizes. Also, on this day, the payment intermediary transfers funds obtained during the campaign, which are reduced by the margin.

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In contrast, Karol Król, in his book, was published thanks to the support of 71 people as part of the project "Crowdfunding on Paper" on Beesfund.com. Distinguishes the following stages of the process (Król, 2013):

- a. Preparation and submission of the project - following formal and substantive requirements, it is necessary to submit the project of an individual entrepreneur or a company as a candidate for presentation to investors. It is then subject to a preliminary analysis by the portal moderators, who decide whether to make it available on the platform or reject the application. The preparation of the project includes its detailed description, provision of indicated information, and fulfillment of certain formal and legal conditions. The requirements for project providers are determined by the owners of the portals and often also depend on local legal conditions.
- b. The process of obtaining financing - community financing - changes the process of obtaining investors. However, this does not mean that the activity and efforts of the entrepreneur may be less intense than in the case of looking for financing in the traditional model. Part of this process can take place automatically, thanks to the spread of information about the investment opportunity, but many questions and doubts may appear on the side of potential investors.
- c. There are dozens of participatory crowdfunding portals worldwide, and each of them has slightly different rules. This has a significant impact on completing formalities related to the completion of the transaction if the funds are raised at the assumed level.
- d. Post-transaction relationships - this stage is the most challenging part of the whole process of participatory crowdfunding. The parties are bound by a formal relationship that defines the fundamental rights and obligations, but the entrepreneur (company) faces many challenges in fulfilling their promises. The owner (management board) should make every effort to appropriately use the transferred capital and increase the company's market value. At the same time, they should take care of investor relations and information about achieving the assumed strategic objectives.

The authors, Bartosz Malinowski and Marcin Giełzak separated the first stage presented by Karol Król into two more detailed ones. Stage four, presented by Karol Król, places a strong emphasis on post-transactional relations, a crucial element of any campaign. Indeed, if the idea is implemented as intended and received positively by the sponsors, it may turn out that the originator will once again want to improve it and finance it in the same way as the prototype. Then the appropriate relationship with the "crowd" that supported the project the first time can be a guarantee of success in its further improvement. In practice, it also happens that the crowd itself wants improvements and requests the creator to modify the product; usually, this applies to computer games. Thus, the process will start again. Theoretically, it could seem that obtaining such funding for your business idea is simple.

However, in practice, this is work that needs to be monitored around the clock. If someone decides to choose such a form of support, they must consider a long process, constant acquisition of sponsors, prompting all activities, and, above all, taking care of positive relations with the crowd that supports the project. A crowdfunding action can never be left on its own.

Thus, such a choice has its advantages and disadvantages. Among the essential advantages of such a choice of financing one's enterprise, one should first mention low costs and non-returnable character of the acquired funds; such a situation does not occur in the case of financing using credit or loan, which should be returned together with interest. It is, therefore, a relatively fast and easy source of funding; in principle, there is no or shallow financial risk. Secondly, the project originator has much freedom of action and complete control over the whole project. Thirdly, by appearing on some crowdfunding platform - he/she collects experiences, opinions, exchanges thoughts with potential prosumers, and can better match the product to their expectations or improve an existing product.

On the other hand, it is worth pointing out some disadvantages. In my opinion, the most significant disadvantage is that someone can steal our idea (if it has not been legally secured) and "sell" it as their own in the same or slightly different form. Another disadvantage of social funding may be communication with the "crowd," which may result from certain restrictions on platforms. Thirdly, projects are very time-consuming, although, on the other hand, a potential originator must consider that starting any business activity and obtaining financing for its implementation is time-consuming, regardless of whether it is carried out through community funding or other forms of financing, as venture capital, business angels, loan funds, guarantee funds, EU funds (Hryniewicka, 2014; 2015). Another drawback is the high risk of failure. According to the data published in the article, which analyzed the geographical distribution of crowdfunding by all provinces, it turned out that only 40% of them were completed (Dziuba, 2017).

#### **4. The Size of Social Funding on the Portal [wspieram.to](https://wspieram.to)**

The platform [wspieram.to](https://wspieram.to) was officially launched in 2013 and is part of Grupa Crowdfunding Polska (together with, among others, Patronite, Fans4Club). It places particular emphasis on the development of creators as well as supporters. The submission of the project itself is free of charge, and thanks to the "all or nothing" model, if a certain amount of money is not collected at a given time, the money is automatically returned to the people who paid for our project. Recently, a "you take how much you collect" model was introduced, which allows for sending the author everything that has been collected. The collected amount is reduced by the commission of 8.5% in the "all or nothing" model and 9.5% in the "you take how much you collect" model and by the commission of the intermediary company in the transfer of payments (2.5%). According to the data for the middle of 2020, the portal [wspieram.to](https://wspieram.to) supports 1840 projects with a total value of just over 18.9 mln PLN. They have been divided into 17 branch categories.

**Table 1.** Value and number of supported projects (in PLN) - as of 30.06.2020.

Support category	Value (in PLN)			Number (in pcs)	
	total	max	average	campaigns	supporting persons
Cosplay	28 883	11 100	111,0	8	259
Design	699 644	295 462	85,8	47	5 915
Education	362 529	53 022	100,8	61	2 722
Film/Photography	679 771	143 042	92,7	93	5 706
Games without electricity	6 543 235	1069 469	103,1	176	14 449
Computer games	226 839	38 649	44,8	55	3 956
Initiative	3 641 032	582 647	42,3	210	56 650
Comics	272 172	34 693	57,9	39	2 509
Books/Journals	1 139 528	98 735	71,8	227	12 565
Fashion	78 202	13 484	125,3	37	515
Music	2 326 696	65 959	72,6	343	20 913
Sport	814 131	137 210	119,7	158	5 089
Startup	244 172	68 616	49,6	94	3 659
Theatre/ Dance	206 779	22 590	80,6	49	1 838
Technologies	203 229	47 144	77,1	59	2 035
Events	982 061	600 410	132,0	89	5 175
Expeditions	502 738	108 085	114,3	95	3 400
Together	18 951 641	-	-	1840	147 355

*Source:* Own study based on statistical data from the portal [wspieram.to](http://wspieram.to).

Table 1 contains several conclusions, among the most important ones, are:

- More than 60% of all crowdfunding projects were carried out in five categories: music, books/journals, initiative, games without electricity, and sport. The music category had the highest share of over 18%.
- In terms of value, the most popular among the crowd is implementing projects in the category of games without electricity - they represent nearly 35% of the total value. One hundred seventy-six such campaigns have been completed, which received support from almost 14.5 thousand people. In my opinion, this is one of the categories of support that should be enjoyed. Because under the name of games without electricity, there are board games known worldwide, most of them are pretty developed with an exciting strategy and thus contribute to family leisure activities spent away from television, computers, tablets. There was also a project of the highest value of more than PLN 1 million in this category.
- The initiative and music categories also had a large share in the total value (19.2% i 12.2%, respectively).
- The least interesting are projects from the cosplay branch, i.e., ventures looking for support for dressing up as favorite characters from movies, games, fairy tales. However, eight such projects with a total value of over 28 thousand zlotys were successfully implemented and completed. The highest support in this category was obtained by one project for the implementation, of which the amount of over PLN 11 thousand was collected.
- As for the average amounts paid by the crowd, they are at the level of PLN 70 - 100. However, there are also higher payments of about PLN 125 from

one person interested in financing the project. The lowest payments are just over PLN 40 because it is the minimum amount of support for the project.

- In total, almost 150 thousand people took part in all social campaigns from this portal, but it is worth noting that the data concern only successful projects and only one portal. Therefore, the scale of interest of support this type of activity is exceptionally large.

### **5. Classic Crowdfunding - a Modern Source of Financing?**

Given the presented data, including the discussed case study of crowdfunding on the example of *wspieram*. The Internet platform can be unequivocally stated that this is a current source of financing for projects for several reasons.

Firstly, the project's originator can be anybody, among others: a person (individual, doing business, but also one who is just going to do business), a company, or a large corporation. However, to realize your idea, you need to find financial resources, which is not an easy task. As indicated by the data of the Polish Agency for Enterprise Development (PARP), most investments are realized with the use of own funds (about 70%), while 15% are realized with the use of various credits, loans and 10% with new sources of financing. Modern sources of financing have mainly included venture capital funds, private equity funds, and business angels. EU funds financed about 5% of the investments.

Analyzing one of the platforms on which, according to the data for April, projects with a total value of just over PLN 18.9 million were supported, it should be stated that this type of financing can be described as "future financing." The article presents data for one platform to show the actual value of support throughout Poland; this amount should be multiplied many times as it increases dynamically. The value of the entire Polish market is estimated at many billions, and if we consider the global market, the value increases many times. It is, above all, an opportunity for development for those investments carried out from their resources, as it will contribute to shortening their time of creation if the originator chooses this form of support. The size of the market, the interest of the prosumers, and the effects of the support provided make it possible to consider it as future-oriented financing.

Secondly, classical crowdfunding is a form of financing which, in my opinion, is free of charge, the fees are paid only after the specific amount is collected, and the fees depend on the platform and the type of collection. Not everyone agrees that this is a cost-free form of raising capital. In my opinion, the costs of this financing do not include those resulting from the need to prepare a project (prototype) such as: (materials, semi-finished products used to visualize a given idea, because these costs would have to be borne anyway in case of obtaining a more traditional source of financing. For a more excellent compromise, the word 'free' can be replaced by the word 'low cost,' although these costs would still be incurred regardless of funding choice.



Another feature is that it is non-repayable, unlike other more traditional sources of financing (credits, loans) or modern (venture capital, business angels). The former must be reimbursed in full to the bank plus interest. In the latter case, we may lose control over the company for a few years because the investor usually wants to have a majority stake and influence all decisions made in the company. I believe that crowdfunding is non-refundable because the crowd (investors, society) does not receive a cash refund but obtains only the final product in the form of a game, a film, a book. This product continues to earn money after the campaign is over, and the originator benefits from it by selling it to other consumers. The investor does not reimburse the funds he has received yet bears the costs of financing the prizes for the public but does not give back the collected capital.

Fourthly, in community financing, we also do not have supervisors who decide for us. A community monitors our steps and waits for the finished product, but the final form of its implementation remains in the hands of the originator of the project, so we do not lose our independence. If the originator wants to change something at the stage of realization of his undertaking, he informs the crowd and convinces them of his opinion, which usually succeeds. When analyzing the types of financed projects, it should be noted that every successful project was carried out with due care and attention to detail. Of course, this is a very time-consuming task, but no less time-consuming than obtaining funding from EU funds.

In the case of EU funding, you should prepare an application form (fill in many documents, descriptions, analyses), have your contribution, wait for a decision for at least several months, settle the project. As the data show, most entrepreneurs benefited from the assistance of qualified companies, which take a commission for this regardless of whether EU support was obtained or not. (Hryniewicka, 2015a). Thus, when assessing the contribution of work to the sound preparation of a project and advertising it on free social media, it will be the same and, in the case of EU funds, even more, time-consuming than raising funds from crowdfunding.

Fifthly, trying to realize your idea using community funding brings another essential benefit. Namely, it allows you to explore the potential market of your customers and evaluate your idea. If it does not meet the expectations of potential customers, it can be improved, changed, modified, and tried again. We get quick feedback from the community (without the need for expensive research, creating surveys, doing interviews), which evaluates our product and is invaluable to the originator. Therefore, in my opinion, the originator takes a minimal risk because, at this stage, apart from his work input, he does not incur any high financial costs. Such a situation would not be possible when choosing a traditional source of financing, as market research itself is a lengthy and costly process.

Sixthly, when analyzing the profile of the originators of the platform in question, it can be observed that it is used mainly by micro, small and medium-sized entrepreneurs (SME sector), who want to raise capital in a relatively quick and easy way. This is because they see great potential and interest in this source of financing,

and an additional stimulus is information about how many and which projects were successful, which mobilizes them to take appropriate steps.

Based on the above considerations, an attempt was made to formulate a proprietary definition. Thus, the definition of this phenomenon, in my opinion, is as follows: Classic Crowdfunding is a modern free, and non-refundable digital financial service using available online marketing channels, which include social media (YouTube, Facebook, Instagram), sponsored by Internet users. The presented definition is universal and can also be applied to other models if we replace two words - "free" and "non-refundable" with "low-cost."

## **6. Summary**

Based on the considerations and analysis of the available sources of information on this issue, several conclusions can be drawn. In Poland, crowdfunding has been developing dynamically for about 15 years, when the first Polish platforms supporting such projects began to be created. Financing your projects with traditional crowdfunding has many advantages, but it is not free of disadvantages. It can create room for abuse, mislead potential future presumes, contribute to their disappointment, and, consequently, discourage them from taking part in other such actions.

In literature, time-consuming is mentioned as a disadvantage, which in total should be fully agreed upon, especially at the initial stage, so that the project is refined in detail. However, when starting any business, it is necessary to spend much time refining all the details and analyzing all possible scenarios. I believe that this is the main reason why around 60% of projects do not have a chance of being implemented. Often the project originator has overly optimistic assumptions, does not develop critical points of the project and its possible solutions, and thus, even though the idea itself is excellent, it is not developed with due care. Therefore, it is also worth using crowdfunding platforms that help, supervise, and support taking the first steps.

Due to the lack of specific legal regulations, such funding provides room for various abuses, theft of someone's idea, use of part of the data for somebody else's project. Even though Poland and the European Union are taking steps to regulate this market, they are currently at the consultation stage. The total value of all supported projects (in 17 categories) amounted to over PLN 18.9 million. The crowd provided this support in 1840 various social campaigns, and nearly 150 thousand people took part in them. These are the funds that the project providers received free of charge from their prosumers, so they financed their product, goods, or service in practice.

However, given that the data relates to only one of the portals, the size of this market amounts to many billions of zlotys and enjoys great public interest. Therefore, it can indeed be said that crowdfunding is an alternative source of funding for projects of various subjects.

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