

COMMUNITY CAPITAL - AN ALTERNATIVE SOURCE OF MODERN BUSINESS FINANCING.

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Summary: Technological development and socio-economic networking have opened the way for *crowdfunding* - an alternative model for obtaining capital with respect to solutions available on the regulated exchange market. It is a solution in which collective intelligence creates criteria for evaluating an entrepreneurial initiative, deciding on its implementation. The outlined context raises the question about the availability of crowdfunding in the area of financing entrepreneurial initiatives in Poland.

The article addresses the issue of community funding - its types and procedures of obtaining it, and also analyses and evaluates the functioning of *crowdfunding* in Poland in current conditions of management.

Key words: financing, capital, *crowdfunding*, development.

Introduction

Efficiency in business can be considered in a number of aspects (Chomać-Pierzecka, 2016). The fundamental condition for economic success is the market demand for the company's offer, hence the inspiration for economic challenges should be a specific response to the diagnosed need of the environment. The ability to conduct economic processes, targeted at the delivery of socially required solutions, determines, in turn, the undisturbed availability of sources of financing (Chomać-Pierzecka, 2017).

Searching for solutions that combine the aspect of financial support of a business initiative with the creation of a social base, in the process of building bonds between market participants (community) and the project subject - using the knowledge of the market and access to customers' potential (European Commission, 2015), is an increasingly common, modern perception of the formula of carrying out business projects focused on success. One

of the solutions that combine the outlined features is *crowdfunding* - an alternative formula for financing entrepreneurial initiatives by the community, which is gaining in popularity

The aim of the article is to present the essence of community financing - its types and procedures of obtaining it, as well as the analysis and evaluation of the functioning of *crowdfunding* in Poland, in current conditions of management. The study was based on a review and critical evaluation of the available literature together with a conclusion.

1. Crowdfunding - introduction to the issue of community financing

Crowdfunding, as directly understood in English means “financing by the crowd” (*crowd + funding*) (www.totalmoney.pl, 28.01.2020). It is a form of obtaining funds for the implementation of a specific project by an Internet community interested in it and focused around it, using dedicated websites (www.mfiles.pl, 02.02.2020). It is a relatively young concept - initiated in 1997 in the United States by fans of the British rock band Marillion for the purposes of touring (with a fund of USD 60,000), and then financing the process of creating and releasing the band’s albums (www.mfiles.pl, 02.02.2020). The event initiated the creation of virtual platforms aimed at social fundraising for the implementation of various types of projects, whereas fundraising according to the model and under the slogan “*crowdfunding*”, has functioned since 2006 (the author of the term “*crowdfunding*”: M. Sullivan) (Kordela, 2016), the year when the cooperation of virtual community in the area of commissioning and solving problems of institutions and enterprises was called *crowdsourcing* (author of the term “*crowdsourcing*”: Jeff Howe) (Król, 2013). Finally, *crowdfunding* – is treated as a variety of *crowdsourcing* - aimed at obtaining the funds needed (Malinowski, Gielzak, 2015), for a specific purpose drawing on the “wisdom and potential of the community for the individual’s own purposes” (www.mfiles.pl, 02.02.2020).

Community financing - as *crowdfunding* is defined (European Commission, 2015), functions within the framework of community funding platforms operating in the web, providing, among other things, clear communication in the field of business initiative as well as relatively simple and safe handling of the undertaking (European Commission, 2015). It is based on obtaining a large number of frequent and voluntary contributions of a relatively low value from a wide range of private investors interested in a given action - in exchange for certain tangible or intangible benefits (www.mfiles.pl, 02.02.2020). (Figure 1). It is a concept of direct financing (in some cases with the function of a limited - compared to other sources of financing - intermediation of the *crowdfunding* platform, for a fee), in which the initiator of the undertaking “touches the crowd” (Lambert, Schwienbacher, 2020), triggering the creation of

a relationship system in the project, strengthening commitment to the initiative and its effectiveness.

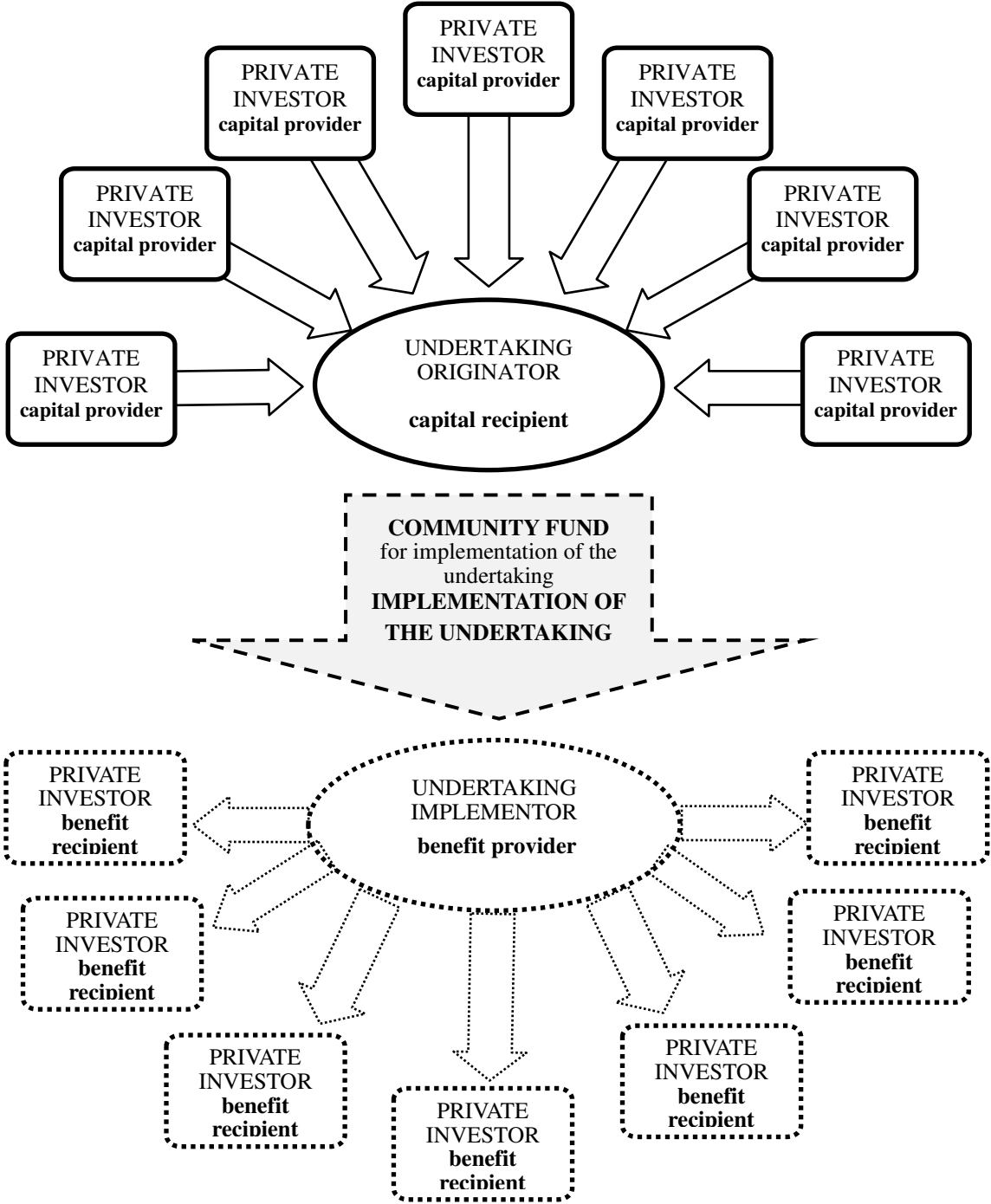


Figure 1. The idea of community funding
 Source: author's own compilation

The idea of raising funds for the implementation of undertakings, based on digital social platforms, is a form of financing alternative to sources available on the regulated exchange market (European Commission, 2015). Community funding, also known as bottom-

up financing (Czajkowska, 2017), is an increasingly popular tool for financial support of entrepreneurship (Czajkowska, 2017), driven by the originator's creativity. The main advantage of this “virtual capital raising channel” (Czajkowska, 2017), is the possibility to reach a wide array of investor potential with a business idea in a very short time. “Crowdfunding generally refers to an open call to the public to raise funds for a specific project” (European Commission, 2014), hence the dissemination of an idea in the web is most often done openly - i.e. to an unspecified recipient and without access restrictions. Interest in this form of financing is also growing against the background of the ICT approach to the instrument adapted to the modern information society and its wide availability. In addition, the multifaceted nature of the available forms of financing, the favourable [“generally more favourable than general market conditions” (Smus, 2014)] conditions for raising capital and the flexibility of application are important. The above mentioned conditions outline the attributes of the community capital financing model (Figure 2).

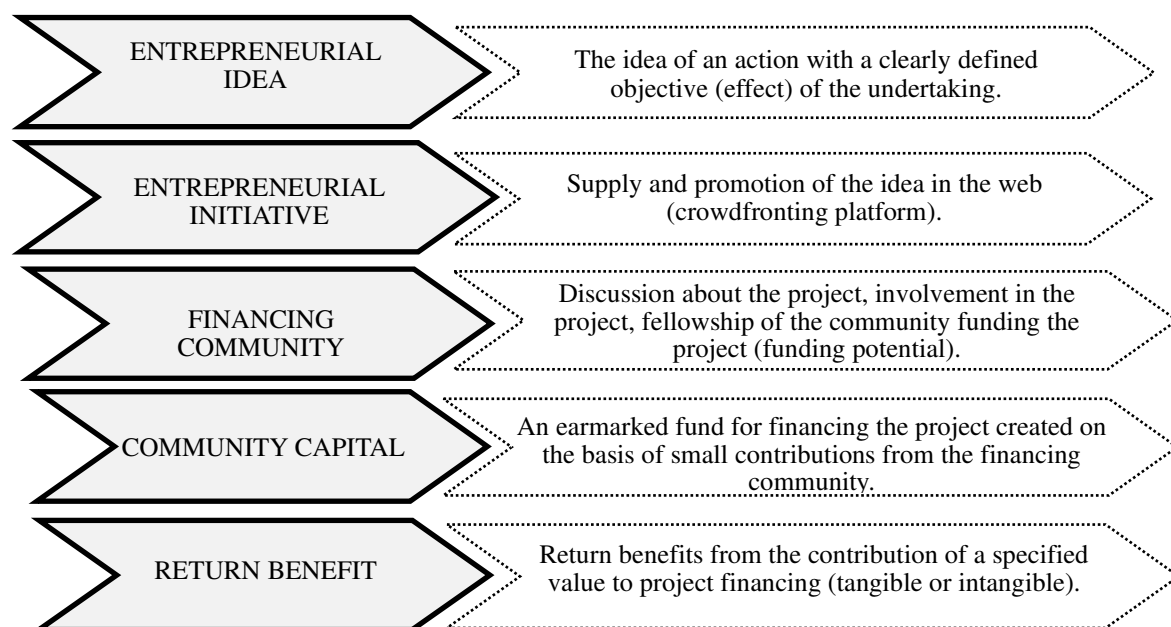


Figure 2 - Attributes of community capital financing

Source: compilation based on: K. Król, *Crowdfunding. Od pomysłu do biznesu dzięki społeczności*, Warsaw 2013, p. 24; I. Wojtaś, *Crowdfunding: jak pozyskać finansowanie społecznościowe?* [https://www.totalmoney.pl/artykuly/400751,kredyty-dla-firm,crowdfunding--jak-pozyskac-finansowanie-spolecznościowe,1,1_\[02.20.2020\].](https://www.totalmoney.pl/artykuly/400751,kredyty-dla-firm,crowdfunding--jak-pozyskac-finansowanie-spolecznościowe,1,1_[02.20.2020].)

2. Crowdfunding models. The crowdfunding procedure.

There are various crowdfunding models. The basic ones include the following (European Commission, 2015; Dziuba, 2012; Gostkowska – Drzewicka, 2016):

- 1) The Donation Model of Crowdfunding - the most popular one among community funding of social welfare initiatives as well as sports or cultural and artistic undertakings.
The following are included in the donation model:
 - a) crowdfunding based on donations:
support of the project without any return benefit from the action taken (*Non-Rewards Model*),
 - b) sponsor crowdfunding - based on rewards (Reward Based Model):
raising capital for carrying out investments in exchange for non-financial return benefits, such as: products, services, unique bonuses, etc. In the discussed case, the funds raised do not have to be reimbursed whereas the arrangements made for the provision of non-financial rewards to donors must be complied with within a time limit.
- 2) The Lending Model of Crowdfunding - taking the form of a loan intended for an activity related to an entrepreneurial initiative, repayable with interest. The form of a repayable loan is determined by the repayment obligation clause.
Social loans are characterized by a competitive (compared to the market offer) interest rate in the amount offered by the investor potential. They require disclosure of information in the area of business performance and turnover records to the group of lenders.
- 3) The Investment Model of Crowdfunding – used mainly in the process of financing projects of economic nature (Frańczuk, 2014), constituting a formula for transferring funds for an entrepreneurial activity in exchange for a promise of participation or a share in an enterprise or profits from implementation of the undertaking.
The following are included in the investment model of crowdfunding:
 - a) Equity Crowdfunding – in other words: “investment in exchange for shareholding” (Kordela, 2016), in which funds for investment are raised through the sale of the company's shares to a wide range of private investors - in a specified quantity and under specified conditions.
Equity Crowdfunding includes the following:
 - Collective Investment,
 - Investment Fund,
 - Mixed Solutions.The use of equity crowdfunding requires demonstration of knowledge in the area of valuation of the undertaking for which the capital is raised as well as the so-called investment readiness to carry it out. In addition, this form of financing generally involves a fee for the *crowdfunding* platform for the successful completion of the capital raising process, which must be taken into account.
 - b) crowdfunding based on debt securities, where funds are raised through the sale of debt securities of the company,
 - c) collective (crowd) community investment or crowdfunding based on a share in profits/income, in which participation in financial benefits created within the project (share in profits within the financed undertaking) is compensation for the capital contribution.
4. Hybrid (mixed) models of crowdfunding - which are a combination of the main types of *crowdfunding*, where funds for financing a project are obtained from different approaches to crowdfunding, which are in the area of interest of the originator (capital recipient).

The availability of a number of approaches to the formula of collective fundraising through the web (crowdfunding) triggers creative initiatives and activates entrepreneurship. It

outlines the spectrum of possibilities to undertake bold entrepreneurial challenges, which are difficult to implement in reality based on traditional financing instruments.

The scheme for obtaining community capital for a business venture is very clear (Figure 3).

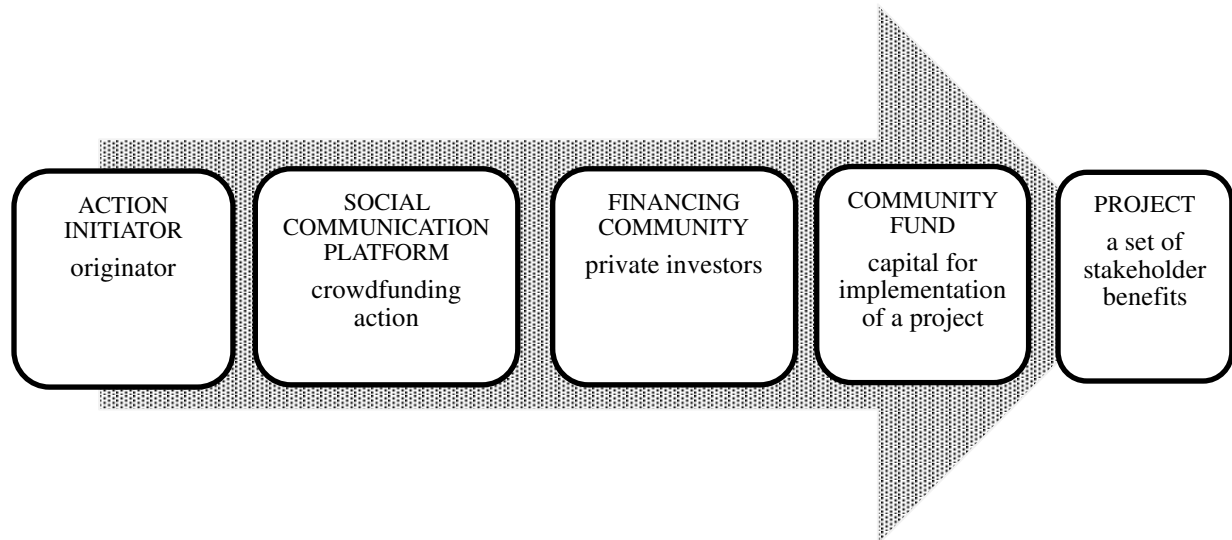


Figure 3. The scheme for obtaining community capital.
Source: author's own compilation

The set of activities in the process of obtaining community funding includes the following (Gostkowska – Drzewicka, 2016):

- 1) description of the idea, goals of the idea, preparation of an offer to participate in a business idea financing initiative,
- 2) verification of the offer and placing information on the social communication platform.
- 3) a *crowdfunding* action: initiating and conducting a *crowdfunding* campaign (discussion, cooperation, establishing relations in the project),
- 4) finishing the campaign:
 - a) successfully - gathering the required [sometimes higher than required (Czajkowska, 2017)] amount of community capital for the project and its implementation,
 - b) unsuccessfully - the capital for the project was not gathered fully; return of the deposited funds to the capital providers (Malinowski, Giełzak, 2015). The principle of gathering the full amount needed to finance the project is applied for the start-up of financing.
- 5) project settlement, in accordance with the commitments made (according to the adopted financing model).

The process of obtaining capital on the basis of *crowdfunding* (the procedure of community funding), takes on a universal character - regardless of the type of undertaking and mode of obtaining community capital. The construction of the stages of *crowdfunding* ensures readability of the rules of community funding and transparency of activities in the project - important for the participants of the project: the originator and the financing community. In

line with the above, the layout of activities in the process of bottom-up financing is based on the following:

- 1) individual conduct of each action – “tailored to the project”, i.e. under the motto of a given business undertaking
 - 2) carrying out of the activities strictly in relation to the financial objectives of the undertaking,
 - 3) activity on the *crowdfunding* platform limited in time,
- whereas, as regards the investor potential, it is based on:
- a) voluntary participation in the initiative,
 - b) no restrictions (national, personal - an individual or a legal person, age and education or experience) (Kordela, 2016) on access to the project,
 - c) a possibility of co-creation of the undertaking,
 - d) flexibility of action.

Promotion of the project on a *crowdfunding* platform and interaction with the “crowd”, strengthens the initiative - increasing its attractiveness and market justification, hence the use of community funding in economic practice and, in particular, the use of the investment model of social funding in economic ventures, is considered in terms of a new approach to socially responsible business (Frańczuk, 2014).

3. Crowdfunding in Poland

Crowdfunding is undergoing intensive development considered globally (1,600 platforms in cyberspace (www.mfiles.pl, 02.02.2020], and locally (Kordela, 2016). In Poland, crowdfunding is allowed (www.mfiles.pl, 02.02.2020], represented by a number of platforms operating within its available forms. A list of the main *crowdfunding* portals with the applied respective models of crowdfunding - is presented in Table 1.

Table 1.
A list of the main *crowdfunding* portals functioning in Poland.

No.	NAME OF CROWDFUNDING	MODEL investment	MAIN AREA OF FINANCING
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	PLATFORM	equity	debt securities	collective investment		
1	POLAKPOTRAFI.PL	X		X		Different types
2	BEESFUNF.COM	X		X		Purchase of shares in the company
3	IDEOWI.PL	X				Startup financing
4	CEOWDCUBE.PL	X				Purchase of shares in the company (investment)
5	WSPÓLNICY.PL	X				Various types of projects
6	CROWDFUNDERS.PL					Group purchase of real estate
7	FINANS4CLUB.COM				X	Sports projects
8	WSPIERAM.TO	X				Various types of projects
9	CROWDANGELS.PL	X				Purchase of shares in the company
10	KICKIN24.COM				X	Sports projects
11	WSPÓLNYPROJEKT.PL			X		Various types of projects
12	MEGATOTAL.PL					Cultural projects
13	MINTU.ME				X	Civic projects (ecology, positive changes)
14	WSPIERAMKULTURE.PL				X	Cultural projects
15	MEGATOTAL.PL				X	Cultural and music projects
16	FUNDUJESZ.PL				X	Civic projects
17	ODPALPROJEKT.PL				X	Various types of projects
18	FINDFUNDS.PL	X				Investment projects (various types)
19	CROWDWAY.COM	X	X		X	Purchase of shares in the company
20	SHAREVESTORS.COM	X				Real estate investments
21	SCIENCESHIP.COM				X	Investments in science
22	STWÓRZMISTRZA.PL	X				Sports projects
23	ZRZUTKA.PL	X				Charity projects
24	DOMORE.PL	X				Charity projects
25	POMAGAMY.IM	X				Charity projects
26	SIEPOMAGA.PL	X				Charity projects
27	POMAGAM.PL	X				Charity projects

Source: Compiled on the basis of: <https://mfiles.pl/pl/index.php/Crowdfunding> [20.02.2020], <http://starter.radomsko.pl/przewodnik-polskich-platformach-crowdfundingowych-cz-iii/> [03.03.2020], <https://wethecrowd.pl/przewodnik-platformy-crowdfunding/> [03.03.2020].

Platforms based on the donation model of financing are the most active ones in Poland with a significant increase in interest in equity *crowdfunding*. In the countries of the European Union, the intensity of the development of equity crowdfunding is limited by the existing formal and legal ambiguities associated with the implementation of this type of undertakings and the risk that arises against this background - in particular, in the area of intellectual property rights, financial supervision and consumer protection (European Commission, 2014). Recognising “the great potential in crowdfunding to complement traditional sources of

finance and contribute to the financing of the real economy” (European Commission, 2014), as well as pointing out that “crowdfunding is most often used by startup companies or growing businesses as a way of accessing alternative funds” (European Commission, 2015), as early as in 2014, the European Commission launched works on formal and legal regulation of this dimension of supporting business activity. The Polish Crowdfunding Society (PCS), established in Poland, conducts an information campaign aimed at promotion of knowledge about *crowdfunding* and the procedure of obtaining it. PCS is also making efforts to establish a Polish name and a friendly legal and economic environment for the institution of *crowdfunding* (Frańczuk, 2014) in Poland, which are to further simplify the procedure for obtaining community capital (www.mfiles.pl, 02.02.2020). It is worth noting that *crowdfunding* portals operating in Poland use a proven legal model - providing assistance and protection to the participants of the undertaking (www.mfiles.pl, 02.02.2020) (expressed in terms of a margin), as well as a wide range of additional (paid) services in the area of professional support for the implementation of the undertaking, such as IT or financial consulting.

The *crowdfunding* model of transferring financial resources from the capital providers to those implementing a project is an attractive formula of cooperation, which is:

- 1) significantly simplified:
 - a) with an option without intermediation,
 - b) without multi-stage verification and establishment of securities,
 - c) with lower regulatory requirements,
- 2) fast (carried out in the web, i.e. with an almost immediate access to the project),
- 3) substantially cheaper (www.starter.radomsko.pl, 02.03.2020):
 - a) with the margin of a crowdfunding platform - depending on the nature of the funding, hovering within the limits of: 0% - 11%, whereas:
 - in the case of equity *crowdfunding*: it is 4.9% – 11% on average (e.g. platforms: Odpalprojekt: 4.9%/6.9%, Polakpotrafi.pl: 7.4%, Wspieramto.pl: 8.5%/9.5%),
 - in the case of non-equity *crowdfunding*: it is 5% – 8% on average (e.g. platforms: Findfunds: 5%, Crowdangeles: 6% + Vat, Beesfund.com: 6.9% + Vat, Wspieramkulture.pl: 11%),
 - in the case of charity *crowdfunding*: it is up to 5% (e.g. platforms: Zrzutka: 0%, Pomagamy.im: 3,5%, Pomagam.pl: 5%).
 - b) with the commission of an internet payment operator hovering on average between 0.5% and 2.5%, e.g.:
 - 0.5%/1.9% in the case of Crowdway.pl,
 - 2% in the case of Beesfund.pl,
 - 2.5% in the case of platforms: Polakpotrafi.pl., Wspieramtto.pl., Odpalprojekt.pl.

Taking the above into consideration, *crowdfunding* is considered to be a “promising financing model” (Frańczuk, 2014), which is confirmed by a review of the literature, supported by a study of real interest in the formula on the Polish market.

K. Koziół - Nadolna points to crowdfunding as an important, alternative method of obtaining capital for implementation of innovative projects (Koziół – Nadolna, 2015). A. Czajkowska,

emphasizes the potential for diversification of the sources of capital supplying undertakings (Czajkowska, 2017), positively influencing the level of accompanying risk. M. Goskowska-Drzewicka, on the other hand, recognises the attractiveness of this source, under the criterion of its availability:

- a) as a rule, accessible to all,
- b) available at different stages of business activity, including those that are particularly demanding, such as early stages of development, including *start-ups*,

considering *crowdfunding* to be “a substitute for traditional sources of project financing” (Gostkowska – Drzewicka, 2016). In this context, it can be an interesting alternative to financing with *venture capital* or by *Business Angels*. According to the European Commission, *crowdfunding* is a “promising source of funding” for companies that cannot find any solutions among those available on the financial market that meet their needs in the area of financing business ventures (European Commission, 2014).

The popularity of crowdfunding in Poland is of great interest. The community capital of nearly PLN 40 million was raised in the first half of 2019 - as part of 20 largest projects, and it is estimated to be even better in the second half of this year (www.comparic.pl, 02.03.2020). The situation was created primarily by the increase in the wealth of Polish citizens and the search for interesting investment options (www.comparic.pl, 02.03.2020). On the other hand, the result has been shaped by formal and legal changes enabling social capital raising actions up to the limit of EUR 1 million, attracting the interest of entities - mainly those with a technological profile of activity and “life-style ones - related to brewing, regional spirits, cosmetics, ecology and beauty” (www.comparic.pl, 02.03.2020).

It is worth mentioning that between 2018 and 2019, the average expectations of capital recipients in relation to the value of the required capital amounted to PLN 2.5 million, with the average capital raised for an initiative reaching PLN 1.5 million in that period (www.pb.pl, 02.03.2020).

A dimension of *crowdfunding* occurring in Poland, which is worth special attention, is the platforms connecting business with science (e.g. scienceship.com), creating a field for the presentation of ideas, enabling quick obtaining of co-financing and/or investors’ interest in the idea (www.scienceship.com, 05.03.2020). This approach to crowdfunding may be perceived as particularly important for the development of entrepreneurship.

Conclusions

Technological development and socio-economic networking have opened the way for *crowdfunding* - an alternative model for obtaining capital with respect to solutions available

on the regulated exchange market. It is a solution in which collective intelligence creates criteria for evaluating an entrepreneurial initiative, deciding on its implementation.

Crowdfunding is, however, in principle more than financing. The benefits of broad social communication - often supported by professional knowledge and awareness of the market - include market verification (improvement within the framework of cooperation) and promotion of the idea carried out in the course of capital acquisition (European Commission, 2015). It is a stimulation of interest in the project already in the preliminary phase - determining the interest in the solution and reducing the business risk of the project.

Against the background of numerous advantages of this financing formula, there are also its negative aspects, including, among others, the following:

- 1) publication of the project and risk of the idea being intercepted by competitors,
- 2) financial uncertainty, marked by the risk of the action's failure.
- 3) non-professionalism and wrong decisions.

A good idea is an essential part of a promising business initiative, whereas the next step is to secure project financing.

Crowdfunding – full of advantages, but not without disadvantages, is a chance to implement projects with limited possibilities of financing based on traditional sources. The problem generally concerns young enterprises, but it may also apply to risky, innovative projects - regardless of the market position of the originator. *Crowdfunding* is, therefore, often the only solution for achieving business goals that determines business efficiency. The above context gives rise to the claim of further intensive development of this form of financing on the Polish market. Improvement of the formal and legal framework regulating the area in question will further strengthen the observed upward trend in its development.

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