

CROWDFUNDING AS A WAY OF FINANCING START-UPS IN POLAND

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<p>Abstract</p> <p>There is a capital gap existing in Poland which particularly affects the limited opportunities for establishment and development of new ventures. The relatively fresh concept of crowdfunding could be a solution to this problem. The purpose of the thesis was to contribute to the scarce literature on crowdfunding in Poland. The main objective of the research was the creation of some suggestions for Polish start-ups on how to use crowdfunding in the most effective way.</p> <p>Firstly, the literature review was done. The crowdfunding concept had been presented against other means of financing, which resulted in a deeper insight into the crowdfunding phenomenon. After that, a multi-method qualitative study was conducted. The qualitative methods included the use of primary and secondary data. The latter was obtained mainly from Polish crowdfunding platforms and other websites touching this issue. The primary data was collected by conducting semi-structured interviews on Skype with two persons involved in Polish crowdfunding from different perspectives. The interviews were transcribed and analyzed by means of a computer assisted qualitative data analysis software, NVivo.</p> <p>The results indicated that crowdfunding is not yet regular form of financing in Poland. However, its development is possible and greatly depends on projects being successful in raising money from the crowd. The outcome demonstrates numerous possibilities an entrepreneur encounters when handling a crowdfunding initiative and some suggestions for that to be effective. The results showed the importance of building a community and engagement of the entrepreneur as some of the vital factors. In addition, the results indicated that success of the initiative largely relies on promotional activities undertaken by the entrepreneur and a trust of crowdfunders for him. Furthermore, the results emphasized numerous benefits which, besides money, are brought to the start-up when using crowdfunding. Moreover, the conclusions demonstrated that some legal changes in Poland would facilitate the use of crowdfunding and thus could encourage the development of entrepreneurship.</p> <p>The results, although providing many suggestions, leave plenty of choices to be made by an entrepreneur willing to undertake a crowdfunding initiative. Thus, the thesis is applicable to different types of start-ups in Poland for which the idea behind the project is interesting and attractive to crowdfunders. However, additional value might be brought by future research engaging a larger sample including entrepreneurs who have actually used crowdfunding for financing their start-ups.</p>		
Keywords Crowdfunding, start-up, financing, fundraising, crowdfunder, Poland, qualitative research, NVivo		
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ABBREVIATIONS

PLN – Polish zloty (currency used in Poland)

1 INTRODUCTION

Financing seems to be one of the most important issues when establishing a start-up. For this reason, there has been plenty of research done so far in order to understand what the opportunities are for an entrepreneur to raise money for business operations. The authors who focused on this topic include, among others, Gavin Cassar, Emily M. Rodriguez, and Wing Lam. The financing question is all the more important as Cassar (2004, 263) states, because decisions concerning a start-up's capital and the use of equity and debt influence operations of the business, its performance and potential of future expansion, as well as the risk of a failure.

Clearly, there are various ways of financing start-ups. Lam (2009, 270) names some of them and divides them into formal (e.g. funds from banks, business angels, venture capital) and informal (e.g. funds from business founder, family, friends, networks). Each way of these appears to be useful at different stage of a life cycle of a company as well as in different industries. Not surprisingly, also company's characteristics play an important role in choosing financial strategy (Cassar 2004, 264). Berger, Udell (1998) and Scholtens (1999) suggest that asymmetries of information, structure of assets in a firm, its scale and demand for finance at different stages of business's life eventuate in disparities between the financing options available for a firm throughout its life cycle (op. cit. p. 264).

It is obvious that a start-up's size significantly influences the type of financing and capital structure. In other words, the size of a start-up is positively related to the proportion of debt, long-term debt, outside finance and bank finance being used. (Cassar 2004, 273–277.) It seems that companies with a low level of tangible assets tend to obtain financing from less formal sources. Their capital structure shows the importance of non-bank financial means (e.g. borrowing from non-related to business individuals). (Op. cit. p. 277.)

Berger, Udell (1998) and Huyghebaert (2001) see that, due to narrow scope of their operating history available, start-ups are firms with presumably the highest level of information opaqueness in the economy. The above named authors present a general belief that potential snags in gaining intermediated external financial means result in start-ups' dependence on initial insider financing. (Cassar 2004, 264.) Harrison, Mason and Girling (2004) indicate that as a majority of entrepreneurs lack an ability to raise money from external sources, they tend to focus on using their own savings and funds from family and friends (Lam 2009, 272– 273). Also results from Cassar's (2004, 273) research indicate that start-ups mainly use short-term finance and the entrepreneur's personal savings. Lam (2009, 269) refers to the information from Global Entrepreneurship Monitor (2004) that informal financial means cover 90% of new business ventures' capital and that business founders provide over 60% of the start-up finance needed.

An interesting conclusion can be drawn from the text above. Although there are different means of finance offered for start-ups, still, a majority of the entrepreneurs need to rely mainly on informal sources, where their own savings seem to play the most important role. This can be seen as a weakness of the financing system; a gap which needs to be somehow filled. It would seem a bit improbable if nobody had tried to do it. Thus, a very important question arises: is there any informal yet external way an entrepreneur can use to finance his start-up? Yes, there is. It is called crowdfunding. And it is the subject of this thesis.

In order to preempt the natural question regarding why crowdfunding has not been described and researched with other options, a short introduction should be provided. Well, crowdfunding is a very young way of financing. This term was used for the very first time by Michael Sullivan on his portal fundavlog in 2006 (Król 2011a, 34). Moreover, what Lambert and Schwienbacher (2010, 6) emphasize, little literature has been devoted to crowdfunding (as a relatively new concept). The little knowledge which actually has been described is usually presented along with a broader phenomenon of crowdsourcing (op. cit. p. 6) or in terms of connections between crowdfunding and other financial means (Belleflamme, Lambert & Schwienbacher 2011, 7–8).

Furthermore, the intention of this thesis is to focus on Polish start-ups. Poland is one of the fastest growing economies in Europe (Poland Overview 2012). The operations of small and medium enterprises have a significant contribution to this fact (Król 2011a, 24). Still, according to Król (2011a), Poland suffers from the existence of a capital gap – with the demand for capital exceeding its supply. This issue, having a direct impact on the limited development opportunities for ventures, negatively affects the entire economy. Thus, all the initiatives which can influence increased accessibility of capital for small projects at the early stages of their existence are highly appreciated and get much attention. (p. 25.) So does crowdfunding.

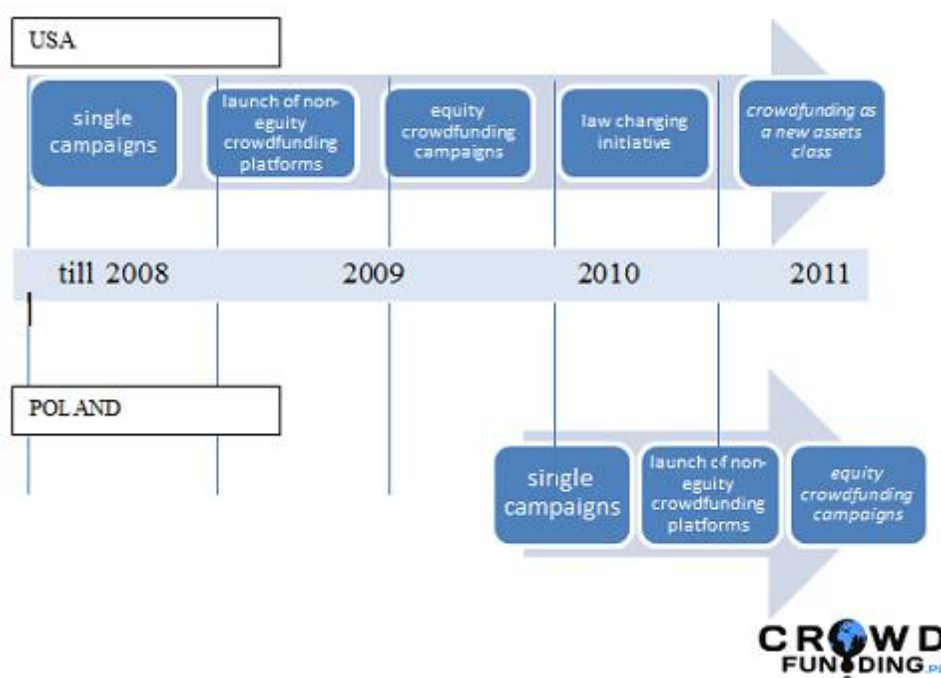


FIGURE 1. Crowdfunding in USA and Poland – time-line (Król 2011b)

As Figure 1 shows, crowdfunding is a relatively fresh phenomenon in the Polish market. In addition, as Król (2011b) states, Poland is definitely less advanced in implementing this method than Western Europe or Australia, not to mention USA. It can be seen even from the Figure 1, which presents the time line of applying particular elements of crowdfunding both in USA and in Poland.

The thesis of Karol Król (2011a) published in 2011 is the very first academic paper in Polish touching the subject of crowdfunding. Yet, its publicly available excerpt only covers the general information regarding the method, provides a definition, background, and explanation of the concept. Additionally, for past two years Karol Król has been editor-in-chief of [Crowdfunding.pl](https://www.crowdfunding.pl), platform familiarizing people with the phenomenon, run in Polish and English. However, the pieces of information contribute mainly to overall picture of crowdfunding, without specified focus on Poland.

Seemingly, there is scarce literature on crowdfunding in general and even less in terms of its Polish background. Thus, any research regarding crowdfunding as a way of financing start-ups in Poland seems to make much sense. The results achieved would still be valid after accomplishing the research. Hence they could contribute to the knowledge of Polish entrepreneurs, who might familiarize themselves with another method of fundraising, as well as to the literature in the Polish context. This implies an important reason for writing this thesis.

The main research question which arises is: **How could Polish start-ups utilize crowdfunding in the most effective way?** There are also other, subsequent questions which need to be answered:

1. What is crowdfunding?
2. Why should start-ups use crowdfunding?
3. What are the pros and cons of using crowdfunding over other options?
4. What does the process of using crowdfunding look like?
5. What are the key concerns when using crowdfunding? How could start-ups deal with them?

Multiple methods are used in processing the research. The first one is analysis of the secondary data, which leads to establishing a framework for further investigation. The primary data was collected by conducting semi-structured interviews with people involved in crowdfunding from different perspectives and for different reasons. The main objective of the research is to create a list of suggestions for Polish entrepreneurs who decide to use crowdfunding, so that they could do it in the most effective way.

Chapter 2 presents a literature review concerning the traditional financing methods (bank loan, venture capital, business angel, bootstrapping) as well as the currently available information regarding crowdfunding. Chapter gives a description of 3 the design of the research, the process of data collection and analysis, as well as the validity of the research. The results are presented in chapters 4, 5 and 6. A discussion and conclusions close this paper.

2 WAYS OF FINANCING START-UPS

Let us consider the most popular currently options for a start-up to gain money from and the advantages and disadvantages of each of them. Let us also try to understand what crowdfunding actually is and how big support existing literature can bring in answering research questions.

2.1 Traditional methods

2.1.1 Bank Loans

Lam (2009, 71) states that out of all the formal sources of debt finance, bank credit is definitely the most important one. However, lending money from a bank is rarely available for a start-up (Bhide 1992, 117). Form of most contemporary start-ups (minority of hard assets, basing on information) and risks inherent in them influence banks' resistance to provide financing. Funds may be given only to a level where the debt is secured with hard assets. (Zider 1998, 132.) Banking environment is still loyal to a system where collateral is a base for loan financing. Thus, it is particularly not an option for technology-based companies. (Nath 2010, 93 – 94.)

It has been noticed that start-ups with intention for growing tend to be more willing to obtain finance from banks. Certainly it has something to do with size change, as size is an important reason to use debt and particularly bank financing in a start-up. Hence, companies with intention to grow have more incentives to establish credit relationships at earliest possible moment. (Cassar 2004, 277 - 278.) Lam (2009), referring to Howorth and Moro's (2005,

2006) opinion, emphasizes the importance of trust between an entrepreneur and a bank. It is argued that high level of trust has a result in higher credit sum and lower interest rate. (p. 272.)

Undoubted advantage of using debt is a fact that interests are tax deductible (Cassar 2004, 264). Still, the interest has to be paid back (Wong, Bhatia & Freeman 2009, 222).

2.1.2 Venture Capital

Venture capital is another formal source of funding. Investors (usually institutional ones) put their money in a venture fund, which is managed by professional investment managers. (DeGenarro 2010, 57.) The money is invested in companies in exchange for equity ownership (Zider 1998, 134). Since a venture capitalist has to process several actions (e.g. due diligence, audit), cost of which does not depend on a company's size, small projects are not so interesting targets as big ones (Nath 2010, 95). Moreover, according to Lam (2009), it is not uncommon situation that one venture receives repeated investments from the same venture capitalist. Taking all the factors together, venture capital is regarded as a source of financing with a very little contribution to early stage of new ventures. (p. 270.)

It is important to point out that, contrary to common belief, role played by venture capital in funding basic innovation is just minor. However, venture capital is an essential element of financing later stage of the life cycle of an innovation – beginning of the innovation's commercialization. (Zider 1998, 132.) Still, as Jacobs (2002) states, a company willing to use venture capital in proceeding innovation, has to win conviction of public shareholders that there are strategic promise and financial return behind the company's project.

Another inconsistent with general opinion fact is that venture capitalists invest in good industries, not people or ideas. Venture capitalists are interested in high-growth market segments. They evade early phases of the industry S curve (due to market and technology uncertainties) as well as later, characterized by slow growth, stages. (Zider 1998, 133.) However, good

industry is not everything. Finding a company with a proper, competent management, which is able to supply the growing demand, seems to be a crucial challenge (Op. cit. p. 133). Thus, Berger, Udell (1998) and Scholtens (1999) see that specific features of new firms (e.g. small-scale potential and early dependence on internal money) may lead to limited use of venture capital (Cassar 2004, 264).

Venture capitalists expect high return on their investment against a tremendous risk taken. It makes venture capital an extremely high-cost fund. (Zider 1998, 135.) Additionally, venture capitalists expect preferential treatment, both on success and failure of a venture. This includes inter alia downside protection, like e.g. priority in dealing with company's property, in an event of liquidation, as well as upside provision, like right for investing additional money in the company (at lower than market price) if it achieves success (Op. cit. p. 134). All of those actions are aimed at protecting venture capitalist from risk of losing original equity position as well as recompensing for participation in the company's development (Wong et al. 2009, 225–226; Zider 1998, 134).

Jacobs (2002) suggests that venture capitalists provide firms not only with money, but also with specialized knowledge, expertise, and active involvement. This opinion is however questioned by Zider (1998, 136–137), who perceives very limited amount of time a venture capitalist can devote to an individual company. Nevertheless, a company is not left on its own. Usually venture capitalists have board seats allocated in the firm. It enables them keeping better control over the company and affect its decisions. (Wong et al. 2009, 224–225.)

Venture capital is not given once forever. Firstly, as Wong et al. (2009) state, mechanism of staging is often used. It means that particular amounts of money are assigned to particular stages. It provides venture capitalists with possibility to verify the investment over time. (pp. 224–225.) Secondly, it is known from the very beginning of a deal that venture capital is temporal money. Thus, venture capitalists' exit after particular period of time is not just

an option, it is a fact. It may happen by e.g. selling a company to a corporation or an IPO. (Zider 1998, 132–134.)

2.1.3 Business Angel

Referring to opinion of many authors, Lam (2009) considers business angel as informal venture capital. However, informality seems to be researchers and policy makers' point of view. This name is based on a fact that presence of business angels is not so evident thus it is not so easy to find them, compared to venture capitalists. (pp. 269–270.) Business angels value their privacy. Lack of formal obligation for public disclosure of their activities facilitates retaining anonymity. (Rodriguez 2011, pp. 13 & 18.) Moreover, angel investors provide smaller amounts of money than “formal venture capital” (Lam 2009, 270). According to Rodriguez (2011, 6), each business angel disposes amount from a few thousand to several million dollars for his/her investments.

Still, these attributes do not say much without explanation who actually a business angel is. Angel investor is an individual who decides to invest own money into a private business of not related to him people. Importantly, the angels usually provide their funds for financing companies at the very beginning of their existence. Thus, they somehow fill the gap derived from venture capitalists' interest in later stages of companies' life-cycle.

(DeGennaro 2010, 55–57; Nath 2010, 93, 101; Rodriguez 2011, 7.)

DeGenarro (2010, 55) emphasizes that out of all the investments made by business angels, around 50% is devoted to seed-stage ventures, often before any of them has earned any money for its operations. Hence, Hill and Power's (2002) opinion – to which Rodriguez (2011, 12) refers – that business angels can be perceived as the main funding source for early-stage ventures, is not surprising.

The amounts of money provided by business angels tend to be smaller than the capital venture capitalists offer (Nath 2010, 95). Still, angel investors want to know how the resources received from them will be used in achieving a company's growth (Rodriguez 2011, 10). According to Rodriguez (2011, 34),

Shop and Bell (2007) state that angel investors expect having access to at least sales reports and monthly financial statements.

Due to fact that basically any business angel is or used to be a businessperson, money is not the only thing he or she can bring to a company. Angel investors can provide their experience, support, pieces of advice, maybe also some contacts. Their expertise is even greater as they tend to invest into industries they are familiar with (usually industries they work or used to work in). (DeGenarro 2010, 57–58; Rodriguez 2011, 7–8.) The business help option they offer is somehow related to a fact that, according to DeGenarro (2010, 58), business angels are more willing to support companies located not far from their residence. This trend has few reasons. Firstly, it allows an angel to control a business she or he invested in. Moreover, as personal and business networks are for the angels a great source of information about possible deals, everything is usually focused on close localizations. (Op. cit. p. 58; Rodriguez 2011, 21.)

As it was already mentioned, business angels invest their own money. Maybe for this reason (most probably especially because of this) they want to make sure that decisions they make are right. Hence, they consider potential deals very carefully. (Rodriguez 2011, 19–20.) Wong et al. (2009, 223) accent the great diversity of business angels in terms of personal features like experience, age, and investment preferences. This may lead to, what Rodriguez (2011) emphasizes, subjectivity of criteria business angels use to evaluate and choose investments. However, there are some general themes, which seem to be taken into account in most cases. A good business idea is not everything. (pp. 26–28.) First of all, as Rodriguez (2011) states when citing Hill and Power (2002), business angels are mostly interested in the ventures for which their product market is already huge or has a grand potential to grow. Thus, as appears from Benjamin and Margulis's (2001) quote, business angels estimate the chances of growth for even newly or not yet established by an entrepreneur market. (p. 22.) Still, a range of industries they invest in is very wide. A proprietary advantage of a company seems to be a persuasive argument for business investors. (Op. cit. p. 23.) Entrepreneurs themselves play an important role in the evaluation process. A business angel looks for an

entrepreneur with whom it is easy and comfortable to work, as they would spend much time together. Moreover, passion and trustworthiness are desired feature of the entrepreneur. (Op. cit. p. 24–26.) Especially the last-mentioned attribute is important as it facilitates building a relationship based on trust between both parties, to which Harrison et. al.(1997) refer as extremely significant factor influencing business angel's decision regarding the investment (Lam 2009, 272). Nonetheless, as Rodriguez (2011, 26) accentuates, stating unambiguously what business angels value most is very hard.

Angel investors use also some tools or mechanisms to maintain bigger control over their investment and lower the related risk. Firstly, they are usually offered equity for cash. Furthermore, other privileges like e.g. anti-dilution provision can be granted to them. (Rodriguez 2011, 32.) Business angels often reserve a right to apply funding based on performance. Thus, an entrepreneur can be sure that her/his company will receive particular amount of capital injection only if a predetermined realistic milestone is met. Otherwise, decision depends on business angel's will. (Op. cit. p. 20.) Many angel investors want to have a direct impact on decisions regarding the venture. They consider this non-financial help as a factor which will add to the firm's success. They often are given a seat in the board. (Op. cit. pp. 20–21.) However, as Lam (2009, 223) states, there are also many business angels preferring passive role in a company's operations. Like it was already emphasized, there are as many different expectations as there are individual angel investors.

It could seem that interests of venture capitalists and business angels somehow overlap. Nothing is more misleading. Actually, as Wong et al. (2009) accentuate, angel investors are not a competition for venture capitalists. In fact, they play a complementary role in this system. (p.224.) According to Nath (2010, 94), presence of a business angel as a financial source of a company may open doors for further flow of venture capital to the firm. Venture capitalists may just wait the time when business angels foster the firm until it meets the venture capitalists' expectations (Wong et al. 2009, 229).

Last important question to consider are the motives which cause business angels to invest into, especially early-stage, companies. Obviously one of them is an expected return on investment. According to the table reposted after Aernoudt (2005) by Nath (2010, 98), return desired by investors varies, depending on the enterprise's development stage, from 20% (mature stage) to even 80–100 % (seed stage). However, surprisingly earning money is an ultimate goal only for around 33% of angel investors (DeGennaro 2010, 59). By supporting new ventures with money and expertise, business angels still feel a part of a business-life, but they do not have to spend as much time on this. They have a possibility to learn new things and stay informed about current and innovative technologies. (DeGenarro 2010, 58; Rodriguez 2011, 9.) Rodriguez (2011, 9) and DeGennaro (2010, 59) accent also a backing angel investors want to provide to the community in a form of workplaces, improvements in technology and supporting an economy. Investing can be also considered as a way of entertainment, to which DeGenarro (2010, 59) states business angels refer as “cheaper and more fun than buying a yacht.”

2.1.4 Bootstrapping

According to Lam (2009, 273), Winborg and Landstrom (2001) define financial bootstrapping as “the use of methods for meeting the need for resources without relying on long-term external finance from debt holders and/or new owners”. Already from this definition noticeable is that bootstrapping differs to big extent from methods described earlier. Let us then try to understand how this method works.

In accordance with Lam's (2009) statement, Harrison et al. (2004) distinguish two forms of bootstrapping. One of them is focused on acquiring finance in creative ways, without counting on external sources like banks, venture capitalists, and others. The second one consists in minimizing financial requirements by securing resources that involve low or no costs. (p. 273.) The studies of Brush et al. (2006) as well as Ebben and Johnson (2006), to which Lam (2009, 273) refers, show that the different stages of life cycle of a small company entail different bootstrap options used. One thing is clear, establishing a business with a limited amount of money demands adopting a

different approach and strategy than in case of a business with suitable financial assistance (Bhide 1992, 113). It is a vital ability of an entrepreneur to distinguish things which are crucial for a company and have to be financed from those on which it is not wrong to economize (op. cit. p. 116).

Bootstrapping is a very popular financing technique in the early stages of a business's life (Rodriguez 2011, 4). It is probably the most important solution for people setting up a company by using modest personal funds (Bhide 1992, 110). Bootstrapping works well for entrepreneurs who are not sure of the markets for their products as well as for those without an experience in dealing with investor pressure. An entrepreneur independent of an investor's decision, can afford greater flexibility in terms of strategy and "the try-it, fix-it approach". (Op. cit. pp. 112–113.) Thus, bootstrapping requires from the entrepreneur different approach and a mind-set than the ones associated with the corporate world (op. cit. p. 113).

Setting up a company by using personal funds means most often financing the venture with founder's personal savings, second mortgage or credit card (Bhide 1992, 110). Many entrepreneurs state that their savings are not random. When they were employed before, they put aside some money, having in mind the establishment of their own business. (Lam 2009, 283–284.) When company is set up, money should be generated by its operations. It is a good idea to have a so-called "cash generator" while the actual product or service the company is going to provide is not yet known. That project can ensure the company a secure income and build firm's credibility. (Bhide 1992, 113–114.) Still, besides having money, an entrepreneur needs to manage it in the right way and know the manners to eliminate or postpone the need for financing from external sources. Rodriguez (2011), referring to Osnabrugge and Robinson's (2000) paper, names a few examples. Those include equipping a company with used or leased furniture and appliances, borrowing money from friends and relatives, and getting a trade credit from suppliers. (pp. 5–6.) Lam (2009, 280–281) adds to this list, among others, selecting an industry with low requirement for start-up capital, and negotiating with customers and suppliers payment and credit terms in order to minimize working capital. Regardless of the methods (mentioned above or others) an

entrepreneur chooses to use, she or he has to understand that, as Rodriguez (2011, 6) emphasizes, bootstrapping is not a sufficient way of financing in the case of a company's growth and has to be then supported by other methods.

According to Rodriguez (2011), when establishing a company some entrepreneurs decide to use bootstrapping even when they have a chance to choose external financing. This shows that there are specific advantages of this method over others. Firstly, when not focused on looking for an investor, an entrepreneur can put his/her time and effort into developing and growing the company. Importantly, bootstrapping enables the entrepreneur to retain bigger control over the company. Additionally, it gives him/her more bargaining power in terms of making decisions when the company has not been fully dependent on an investor from the very beginning but at some point received external funding. (p. 5.) Moreover, as Bhide (1992) states, bootstrapping exposes hidden problems of a company and makes them deal with them. An entrepreneur is fully aware of what the money was spent on. (p. 112.) Furthermore, when using bootstrapping, a company can be more flexible and does not need to stick to the basic strategy. It may get involved with different projects and benefit from various profit opportunities. (Op. cit. pp. 113–114.) A company built on bootstrapping can also grow at its own pace while the entrepreneur may develop his management and problem solving skills in a convenient way and time (op. cit. p. 115–116).

Along with pros, there are always some cons or challenges associated. Doubtless, one of them is the need for constant profit. As Bhide (1992) accentuates, a start-up using bootstrapping has to develop a positive cash flow basically from the first day of operating. There is money needed for covering the costs as well as for growing the venture. Thus, projects giving at least low-profile but timely money inflows should be undertaken. Additionally, wise managing of the working capital is very important. (p. 116.) Another challenge for bootstrappers is that they cannot afford to hire expensive managers. Moreover, unlike in big companies, they do not have much time for detailed screening of candidates for a job. Hence, they are sometimes disappointed with people they have chosen. Still, they can try to attract the

right, potential employees by offering them a chance to develop their skills and enhance their resumes. (Op. cit. p. 115.)

In conclusion, financial bootstrapping is a very broad concept. After all, according to Lam (2009), it is the prime means of entrepreneurial finance. Debt and equity finance do not play so important role in this regard. (p. 285.) Referring to studies of Freear et al. (1995), Winborg and Landstrom (2001), and Harrison et al. (2004), Lam (2009, 286) states that more than 95% of new ventures use some sort of financial bootstrapping. Yet, as it was already mentioned based on Rodriguez's (2011, 6) statement, at some point, all those companies will need to attract some means of external financing. Nevertheless, as Bhidé (1992, 110) wrote, "the biggest challenge is not raising money but having the wits and hustle to do without it".

2.2 Crowdfunding

Although it would seem that a scope of financial options available for any entrepreneur is rather wide, it occurs that it is not wide enough. According to Larralde and Schwienbacher (2010, 3), though venture capital or bank loan can be used to satisfy a need for significant amount of money; entrepreneurs with less excessive requirements still need to rely on friends and family as well as on their own savings. Moreover, following arguments of Hellmann (2007) and Casamatta and Haritchabalet (2010), a lack of funding is an ever-present problem for many ventures due to two reasons: a lack of success in convincing potential investors and a lack of adequate pledge that could be given to them (Belleflamme, Lambert & Schwienbacher 2010, 2).

This is where crowdfunding could come in handy. As a rather new concept, it has not been described too extensively (Belleflamme et al. 2011, 7; Lambert & Schwienbacher 2010, 6). However, the existing literature should be sufficient to outline the most important characteristics of crowdfunding. Other features will be sought in the research.

2.2.1 Introduction of the concept

As Lambert and Schwienbacher (2010, 6) define “crowdfunding involves an open call, essentially through the Internet, for the provision of financial resources either in form of donation or in exchange for some form of reward and/or voting rights in order to support initiatives for specific purposes”. Also Belleflamme et al. (2011, 5–6) as well as Larralde and Schwienbacher (2010, 4) refer to this definition. In simpler words, crowdfunding means that a project or a venture is financed by a group of individuals (a “crowd”), not by a professional source (like e.g. a venture capitalist or a bank).

Crowdfunding has its roots in a more general concept of crowdsourcing, which deals with using a crowd in developing a profit-oriented company's activities (Belleflamme et al. 2011, 4; Larralde & Schwienbacher 2010, 5–6). Yet, both phenomena differ to some extent. However, as Larralde and Schwienbacher (2010, 6) state, crowdfunding can be perceived as a part of crowdsourcing at least in terms of individuals (including customers) providing help (here financial) to a firm. Still, relations between the concepts are not a subject of this paper.

The main objective of a crowdfunding initiative is raising money for an investment (Belleflamme et al. 2011, 2). Investors – those who provide funds – are called here crowdfunders (Lambert & Schwienbacher 2010, 2). Providing money can have different forms, starting from a donation, through a loan or equity purchase, till pre-ordering the product which would be produced. The main idea is that funds do not come from a small group of professional investors, but from a “crowd” whose each member contributes small amount of money. (Belleflamme et al. 2011, 2.) Interestingly, Lambert and Schwienbacher (2010, 7) discovered during their research that some entrepreneurs, who had raised funds for their investment from a numerous Internet users, did not know that what they had done was actually crowdfunding.

The typical mode an entrepreneur uses for communication with potential crowd is the Internet (Larralde & Schwienbacher 2010, 4). In the previous

couple of years special on-line platforms have emerged. They facilitate communication and direct interactions between crowdfunders and individuals whose projects are being funded. (Op. cit. p. 4; Agrawal, Catalini & Goldfarb 2011, 3.) Lambert and Schwienbacher (2010, 8) consider also other communication methods like own Internet sites or CV of founder(s), blogs, Facebook, Twitter or LinkedIn.

Although crowdfunding has been used mostly in entertainment industry, it is entering new areas as well (op. cit. p. 2). According to Agrawal et al. (2011, 3), thanks to crowdfunding systems, investors can support variety of types of projects and ventures. Larralde and Schwienbacher (2010) emphasize that both specific projects as well as new ventures being established can be financed in this way. Importantly, crowdfunding may be useful not only for small projects, but also for high-growth start-ups. Many start-ups have already used this option when looking for small amounts of money for their initial stage. (p. 3.) The capital raised in crowdfunding can be used by a company for e.g. employees' remuneration or acquiring new assets (op. cit. p. 6).

2.2.2 Main attributes of crowdfunding

The crowdfunding market is young, with most of the initiatives taking place in previous couple of years (Larralde & Schwienbacher 2010, 4). Franke and Klausberg (2008) indicate that it has not been used too widely, thus it is still working. Excessive usage of this way of financing may result in radical limitations of the "crowd" resource. (Larralde & Schwienbacher 2010, 7.) While quoting Lawton and Marom (2010), Agrawal et al. (2011, 3) state that crowdfunding experiences growth in terms of a number of sectors in which is applied, as well as a total value of transactions. It is even more interesting when taking into account fact that the amounts provided by individual crowdfunders are usually small (op. cit. p. 3).

Influence of crowdfunding on a company should not be considered only from the financial perspective. This type of fundraising has also other purposes, like e.g. marketing, promoting and testing the company's product(s), gaining better knowledge regarding customers' preferences or development of ideas. Thus,

crowdfunding can be treated as a promotion tool, way to get to know the consumers, a basis for mass customization and many others. (Belleflamme et al. 2011, 25–26.)

There are three recurrent characteristics of crowdfunding described by Belleflamme et al. (2011, 7):

1. Many of crowdfunding initiatives are based on pre-ordering of a product, which has not yet entered the market in its complete form. An entrepreneur who offers advance purchase of the product provides also its description and commitment that the product will be actually put on the market.
2. Usually those who buy the product in advance – crowdfunders – are willing to and pay more for the product than customers who buy it when it is finally produced.
3. The crowd has to identify itself per se. The crowdfunders must voluntarily decide to enter the community of privileged consumers. The entrepreneur has to make sure that consumers are satisfied with the community benefits and have trust in the project.

2.2.3 Types of crowdfunding initiatives and their features

Lambert and Schwienbacher (2010) accent, that financial contributions made by crowdfunders are voluntary. Still, investors may in most cases expect some form of compensation. (p. 5.) The compensation can take monetary or non-monetary form (Belleflamme et al. 2011, 6). The scope of possible rewards is very wide, from cash, bonds, shares, a free product copy, to recognition (mentioning the name of a funder on the product), sometimes even voting rights or other form of direct engagement in the initiative (Lambert & Schwienbacher 2010, pp. 2–6; Larralde & Schwienbacher 2010, 4). Usually crowdfunders can expect product or membership as a reward, not shares (Belleflamme 2011, 5). Based on if and what form of compensation is offered, there can be three types of business models in crowdfunding initiatives recognized (Larralde & Schwienbacher 2010, 13).

Donation

Study of Lambert and Schwienbacher (2010, 3) show that only a little part of all crowdfunding initiatives is based on donations. Following arguments of Glaeser and Shleifer (2001), Larralde and Schwienbacher (2010, 13) state that donations work best in the case of non-profit organizations, as funders tend to believe that those organizations are more focused on quality of a product rather than on profit-maximization.

Passive investment

According to study of Lambert and Schwienbacher (2010, 3) some kind of compensation is offered in majority of the cases. In passive investment crowdfunders receive a promise of a reward without any possibility for an active involvement in the initiative itself (op. cit. p. 3; Larralde & Schwienbacher 2010, 13). Typical compensation is a product or a service from the financed project. Passive investment is the most popular form of funding by the crowd. (Lambert & Schwienbacher 2010, 3.) It is preferred by entrepreneurs who do not want to forgo some control over their projects (Larralde & Schwienbacher 2010, 13).

Active investment

In this model crowdfunders do not only receive rewards. They become also actively engaged in the initiative. (Larralde & Schwienbacher 2010, 13.) This engagement may take a form of e.g. voting rights, direct involvement in the decision-making process, or expressing opinions regarding a product or a service (op. cit. p. 13; Lambert & Schwienbacher 2010, 3). Based on activities of directly engaged crowdfunders, an entrepreneur may receive an important feedback about desired features or potential demand for a product (Larralde & Schwienbacher 2010, 13).

Each compensation plan may provide an entrepreneur with different forms of information, however, the degree of credibility of the signal may be varying (op.cit. p. 20). In a case of pre-ordering at discount, crowdfunders are concurrently customers. Placement of an order supplies credible information regarding the product. (Larralde & Schwienbacher 2010, 13.) This form gives

also an opportunity for applying price discrimination between the crowd (those who are highly willing to pay for the product and thus contribute to cover the fixed production costs, so the entrepreneur would be able to start the production) and those who will buy the product when ready (Belleflamme et al. 2011, 10). Another case could be when crowdfunders receive voting rights and take part in the profit sharing. Those investors do not have to be customers. Thus, they may rather deliver information concerning their general preferences, not necessarily related to funded product or service. Still, this feedback may be very helpful in determining consumer target group or designing the product. (Larralde & Schwienbacher 2010, 13–14 .)

2.2.4 Motives of crowdfunders

There is one very important question which comes to mind: “Why do crowdfunders invest?” It would seem that obvious answer is “for money”. However, it is not as simple as it sounds. Financial reasons are not that important, for some investors even meaningless (Larralde & Schwienbacher 2010, pp. 7 & 17).

While quoting Kleemann et al. (2008), Larralde and Schwienbacher (2010, 7) explain that people taking part in crowdsourcing (and thus also crowdfunding) initiatives have intrinsic as well as extrinsic motivations. Intrinsic ones are related to pleasure gained from performing specific tasks and participating in innovative projects, self-satisfaction, et cetera. Extrinsic motives include, among others, external rewards, recognition and learning. (Op. cit. pp. 7 & 17.)

In their study Larralde and Schwienbacher (2010) discovered several factors which can be motivation for investors. First of all, crowdfunders enjoy a participation in building a new venture. Moreover, they perceive it as a way for extending their own network and building relationships. Last but not least, crowdfunders see the advantages of having access to competences belonging to the entire network created around the project. (p. 16.) The network can be stronger than traditional ones, as it is built by people who want to (do not have to) be in it and whose passion and motives are similar (op. cit. p. 18).

Furthermore, following arguments of Glaeser and Shleifer (2001) as well as Ghatak and Mueller (2009), Lambert and Schwienbacher (2010, 12) suggest that private benefits from participating in successful initiative, as well as social reputation, are important for crowdfunders.

Besides considering motivations leading crowdfunders to invest in general, it is also important to understand the reasons causing investors to support particular projects. Franke and Klausberg (2008) emphasize meaning of so-called perceived fairness of a project. Projects which are fair to crowdfunders are more likely to attract investments. 'Fair' means that business model of a venture is in line with the crowdfunding initiative. Hence, investors consider existence of tangible or intangible rewards, possibility to participate in the decision-making process, as well as whether intellectual rights over the ideas submitted by crowdfunders are observed. (Larralde & Schwienbacher 2010, 8.)

2.2.5 Pros and cons of crowdfunding

As every method of raising money, crowdfunding has its pros and cons. It does not come as a big surprise that number of advantages exceeds in this case number of shortcomings. Let us then try to understand what benefits entrepreneurs have from applying this form of funding and what negative sides it can have.

Advantages

Already using a crowd as a helping force has a positive impact on a company. First of all, according to Kleemann et al. (2008), it enables a cost-reduction as users create a value for the company while taking part in designing and improving a product. Also product development time is shorter and its cost smaller. (Larralde & Schwienbacher 2010, 6.) Moreover, a crowd may be more efficient than individuals in solving problems bothering the company (op. cit. p. 12). According to Surowiecki (2004), decision of a group is consistently better than most of its members'. Additionally, it is not likely that over time one individual will do better than the group. (pp. 34–35.) Importantly, as Larralde and Schwienbacher (2010, 7) state, referring to the opinion of Brabham

(2008), the more diverse the crowd, the more efficient it is in solving problems. Surowiecki (2004, 21–22) presents diversity, independence and decentralization as essential characteristics of a crowd needed to make for a good group decision. Ideally if diversity exists both among the investors and among ideas provided by them. Then new perspectives, that would in other case be absent, are visible. (Op. cit. 28–29.) Furthermore, there exists also something called “collective intelligence” as no person knows everything but every person knows something (Larralde & Schwienbacher 2010, 7). Larralde and Schwienbacher (2010, 17) state even that a crowd may be more intelligent than individuals in it, as every crowd member has a possibility of building on skills of others. Thus, as Surowiecki (2004, 11) emphasizes, group's collective verdict contains surprisingly much information. “The wisdom of crowds” is not only big words.

Now it is time to focus on crowdfunding itself and its positive applications for an initiative. Unquestioned reason for using crowdfunding is willingness to gain money (Larralde & Schwienbacher 2010, 5). By applying this type of fund-raising, a company/a project attracts public attention (intentionally or not) (op. cit. p. 5; Belleflamme et al. 2011, 26). According to Larralde and Schwienbacher (2010, 7), Lambert and Schwienbacher (2010) perceive that in some cases crowdfunding can be treated as an excuse for hyping up around a new product and as a part of a marketing strategy. Nonetheless, crowdfunding can also provide a company with an insight into market potential for a product (Larralde & Schwienbacher 2010, 7; Belleflamme et al. 2011, 26). Thanks to crowdfunding, the company may evaluate existence of potential demand for its product (Larralde & Schwienbacher 2010, 7).

As already mentioned in this paper, crowdfunders may provide a valuable feedback on the company's product or service. Crowdfunding is a perfect tool for validating products before they enter the market (op. cit. p. 5). It is also a good way for verifying ideas, as a specifically targeted audience is at company's disposal (Lambert & Schwienbacher 2010, 12).

Larralde and Schwienbacher (2010, 12) remind about one important issue: that once a project is financed and the product brought to the market,

investors may become consumers. Belleflamme et al. (2011, 3) accentuate that by using crowdfunding a company offers some of its customers an enhanced experience. A crowdfunder can better learn features and quality of the product by following project on a platform and by interactions with other investors. A flow of information on a line “organization – customers” is improved. (Op. cit. p. 26.) Customers gain also better perception of the product newness. Customer acceptance is enhanced as investors participate in the product development. (Larralde & Schwienbacher 2010, 6.) Additionally, a crowdfunder who receives some part of profit from the venture may want to spread information about the product (op. cit. p. 12).

There are also other strengths of crowdfunding. Usually crowdfunders are not specialists in the financial area. Thus, they have not that high requirements regarding the source or quality of information provided to them. (Larralde & Schwienbacher 2010, 18.) However, they possess various skills, therefore they contribute to better decisions (as diversity matters) (op. cit. p. 17). Moreover, as Belleflamme et al. (2011, 5) state, in crowdfunding the resource is in the end the company's property and only company can use it.

Disadvantages

Although it looks like there are fewer cons than pros of crowdfunding, they are basically not that trivial. Let us then start from the less serious ones. First of all, not like in the case of professional investors, crowdfunders are usually not specialists in a particular industry they support in a project. Still, the “wisdom of crowds” can be applied here. (Larralde & Schwienbacher 2010, 12). According to Belleflamme et al. (2011), only in the case of lower amounts of funds targeted, crowdfunding is the most profitable option. Otherwise, an entrepreneur can not afford to set prices freely, because he/she wants to attract investors and raise targeted amount of money. Then, price discrimination does not bring so big gains. (p. 3.)

Lambert and Schwienbacher (2010, 5) direct the attention to important legal considerations crowdfunding causes. Especially the initiatives where equity is offered to the crowd may become problematic. Only in the case of publicly

listed equity a general solicitation with equity offering is possible. For companies, only a prior authorization from their national securities regulator can open the door to a general solicitation. However, limitations in terms of a number of private investors a company can have are another obstacle in many countries. Considering that the crowd's contribution is capital (not time or idea), all the mentioned above issues form significant legal limitations to crowdfunding initiatives. Thus, in most cases rewards other than shares (e.g. product or membership) are offered. (p. 5.)

2.2.6 Crowdfunding versus other options

As the youngest of all the ways of financing described in this paper, crowdfunding cannot avoid comparisons to other options. The first difference is hidden right in the name – it is the “crowd” that provides money (everybody some little amount), not small group of professional investors (Belleflamme 2011, 2). Moreover, as crowdfunders are usually not specialists in the field project relates to, it is an entrepreneur who needs to bring in the expertise (Lambert & Schwienbacher 2010, 12). He/she cannot use the professional experience which e.g. venture capitalist or business angel would offer. It also adds to belief of Lambert and Schwienbacher (2010) that for majority of the projects crowdfunding is most likely not the least costly financing option. Another reason is that small amounts provided by crowdfunders can translate to sizable transaction costs. (p. 12.)

In crowdfunding it is not feasible that any kind of managerial decision would be given to investors – they are numerous people with a quite small contribution each. Thus, there does not occur conflict of interest between owners and managers. (Larralde & Schwienbacher 2010, 11.) Furthermore, unlike in the case of venture capitalists or business angels, crowdfunders do not have much to lose if the company goes bankrupt (op. cit. p. 18).

Crowdfunding is quite similar to bootstrapping in some matters. In both cases creative ways of financing are used and traditional investors avoided. Still, both options remain different, with the most important distinction in respect of type of resources preferred: in crowdfunding they are external investors and in

bootstrapping internal resources combined with special techniques of money-management. (op. cit. p. 8.) When it comes to comparing crowdfunding by pre-ordering the product with external funding, Belleflamme et al. (2011) find strengths and weaknesses. Positive sides are: enhanced experience offered to some consumers as well as connected with it possibility for a second-degree price discrimination and benefiting from a better consumer surplus. Negative side occurs because in the first period an entrepreneur is confined by his/her target amount of money. The bigger it is, the more investors need to be attracted, thus pricing has to be well-thought-out. (pp. 10–11.)

Larralde and Schwienbacher (2010, 18) pay the attention to one important factor bonding entrepreneurs and crowdfunders together: namely the trust. As it was already mentioned in this paper, crowdfunders are not specialists in financial area. They make their decision based on their own world evaluation. Thus, what they need is trust towards the entrepreneur, so they can become peers. This makes crowdfunding a means of financing with more human contact than any other option. (Op. cit. p. 18.) Belleflamme et al. (2011, 24) emphasize that only by building a community from participation in which crowdfunders have real additional benefits, an entrepreneur makes crowdfunding a worthwhile alternative to other financing options like bank loan or venture capital. Furthermore, it is less probable that crowdfunding is chosen over traditional funding in the case when an entrepreneur can not present any plausible commitment that she/he will not take the collected money and run away (op. cit. p. 24).

Despite all the differences and maybe also because of them and some similarities between the means, Lambert and Schwienbacher's (2010, 9) study showed that many entrepreneurs combine crowdfunding with other financing options, mostly with own savings, money from friends and family, business angels, as well as subsidies from government.

2.2.7 When does crowdfunding make sense?

In their article Larralde and Schwienbacher (2010) collected main characteristics of a venture for which it makes sense to use crowdfunding

instead of other financing sources. Firstly, crowdfunding can be adapted only to small ventures. Big ventures are excluded because, among other reasons, they may not be able to meet shareholders' need for participation. Effectively, this fund-raising method is not even an option for all small ventures, only for those characterized by innovativeness and planning to grow. Given that small entrepreneurial companies or project-based initiatives have difficulties with obtaining funds, they can use crowdfunding as a viable method for raising finances. (pp. 19–20).

Companies which want to use crowdfunding should set a reasonably low target capital amount. This enables for involvement of a relatively small group of crowdfunders. Main reasons for this are: limitations regarding the number of investors in the case of some legal forms of ventures, as well as difficulties which management of a big group may cause. The project itself should be interesting, innovative, so crowdfunders could become interested in it. An entrepreneur needs to be open for new skills and opinions as crowdfunders want to feel useful and they look for projects where they can give their abilities. Furthermore, the entrepreneur has to be familiar with Web 2.0. Communication through Internet goes faster, cheaper and more efficient than any other form of interaction with numerous investors. (Op. cit. pp. 19–20.)

2.2.8 Important factors to be considered by an entrepreneur

Unquestionably, crowdfunding is a tempting option for an entrepreneur who looks for money combined with public attention and feedback regarding the product or service offered (Lambert & Schwienbacher 2010, 9). Still, the entrepreneur has to consider some factors before making the final decision whether to use this way of financing. One of the most important questions relates to the entrepreneur's pre-resources. It is vital to understand whether the entrepreneur has the skills needed to run a project and lead it to success. Additionally, how he/she is able to use his/her property to secure the investment on the funds provided. (Op. cit. p. 9.) As Short (1994) indicates, the entrepreneur has to consider the level of risk he/she is willing to take. It is related to the financial structure of the company. It is the shareholders who actually bear the risk, although managers also carry a fraction of it. Another

important question is whether the entrepreneur is willing to disclose information regarding his past performance, project details and so on to so many and not professional investors. If yes, the concern is how much he/she wants to reveal. (Larralde & Schwienbacher 2010, 10.)

The form of a venture is also an important question. As already mentioned, non-profit organizations are more likely to achieve their fund-raising targets than for-profit organizations and project-based initiatives. Moreover, according to Lambert and Schwienbacher (2010, 10), crowdfunding initiatives offering a product usually attract more money from investors than those yielding service. An entrepreneur who gives the investors the right for information providing and voting should realize that, according to Belleflamme et al. (2011, 25), the results will be affected by the form of the crowdfunding initiative, different for e.g. pre-ordering than equity purchasing. Although equity holders have more incentives to care for the company's growth (Larralde & Schwienbacher 2010, 18), offering equity to investors has to be well-thought-out. Firstly, private companies are restricted by some special regulations on equity issuance and thus, in some cases, crowdfunding may be "perceived as being a general solicitation of public saving" (op. cit. p. 12). Secondly, some countries apply limits regarding the number of shareholders one company can have, as well as the extent to which offering security to the public can be advertised by companies. For these and other reasons, alternative ways of crowdfunders' participation in the initiative are often used. They are, among others, making the crowd a member, not the shareholder or providing investors with part of the revenues without issuing shares. (Larralde & Schwienbacher 2010, 12.) Yet, it is the entrepreneur who has to decide which form of a venture suits his interests best.

As mentioned above, when an entrepreneur weighs up different fund-raising options, he has to consider the amount of information he is willing to reveal. However, when he/she decides for crowdfunding, it is sure that certain pieces of information regarding the idea need to be disclosed. This raises a question regarding intellectual property rights and risk of stealing the idea as it is publicly exposed. (Larralde & Schwienbacher 2010, 20.)

According to Glaeser and Shleifer (2001) as well as Ghatak and Mueller (2011), the main concerns for crowdfunders is not money, but social reputation and the private benefits gained when taking part in a successful initiative (Belleflamme et al. 2011, 27). Moreover, as Belleflamme et al. (2011) remind us, a company's consumers who enter the community are looking for additional benefits. With respect to this, the role of an entrepreneur comes down to making sure that the crowd is able to generate the additional benefits mentioned above. (pp. 22–23.) Still, the entrepreneur is responsible for the well-being of the crowdfunders. He has to have time for them. If there are many investors, the time he can devote to each one is rather short. Crowdfunders who do not feel valued have a low motivation to invest. (Larralde & Schwienbacher 2010, 18.) Fortunately, there are special platforms which work as an intermediary between potential crowdfunders and the entrepreneur (Belleflamme et al. 2011, 26). By using them, communication with the crowd is definitely facilitated.

2.2.9 How to use crowdfunding? Pieces of advice

Any entrepreneur who decides to use crowdfunding as a way of raising money should remember that there are some rules and pieces of advice which make the whole process easier and increase the probability of achieving success.

It does not come as a surprise that networking and efficient communication between an entrepreneur and crowdfunders are extremely important, and are an inherent part of any crowdfunding process (Larralde & Schwienbacher 2010, 17; Lambert & Schwienbacher 2010, 5). Crowdfunders are in adverse situation as they have limited possibilities to protect their interests as stakeholders. Hence, only if there is a trust built between the entrepreneur and investors, actual investments will take place. Thus, the entrepreneur needs to remember that success of his crowdfunding initiative relies on this trust. (Lambert & Schwienbacher 2010, 12.)

Larralde and Schwienbacher (2010, 17) state that an entrepreneur willing to find skillful and motivated investors should start from reaching as numerous audience as possible and then apply intelligent filtering. The whole process

usually starts from social networks which, according to Agrawal et al. (2011, 16), are disproportionately local. Individuals, who decide for crowdfunding as a way to raise money for their projects, usually use the Internet to that end. Main tools are: own websites, blogs, community blogs, Facebook and Twitter. (Lambert & Schwienbacher 2010, pp. 7 & 9.) In accordance with the Lambert and Schwienbacher's (2010, 9) study performed at the turn of 2009 and 2010, special crowdfunding platforms were used rather rarely. However, there is no research which would indicate how the situation looks like in 2012.

As already mentioned, in crowdfunding the Internet can be used not only for raising money. It can also play a great role in maintaining interaction between entrepreneurs and funders and providing crowdfunders with so-called 'community benefits' (Belleflamme et al. 2011, 12). It is an entrepreneur who should identify (or create) and target the community, so the crowdfunders could enjoy additional benefits. This would bring measurable advantages as community benefits are the factor which additively enhances crowdfunders' willingness to pay. (Op. cit. pp. 22–23.)

There is one thing which can be said about crowdfunders for sure: they love being appreciated. According to Belleflamme et al. (2011) they especially value a feeling of being one of the privileged customers. Thus, any entrepreneur willing to satisfy his investors needs to attract enough (it means: a number above some threshold) regular customers in comparison to whom crowdfunders can feel somehow 'better'. (p. 12.) Moreover, in the case of crowd pre-ordering the products, the entrepreneur should ensure that level of offered additional benefits is sufficient (op. cit. p. 22).

Agrawal et al. (2011, 17) emphasize the importance of family and friends (FF) as early investors (on-line and off-line) in the entrepreneurial ventures. Local investors (FF included) tend to invest at the beginning of the life cycle. In this way they help the venture (op. cit. p. 11). According to Conti, Thursby and Rothaermel (2010), their early investments may indicate the entrepreneur's commitment to the project (Agrawal et al. 2011, 17). Moreover, as it is visible that the entrepreneur accumulates capital, tendency of distant investors to provide money increases (op. cit. p. 11). Based on this consideration, an

entrepreneur needs to understand how important local investors (especially family and friends) are and should plan how to attract them in a best way.

2.2.10 Summary of the financing options

In total there are five different ways of financing presented in this chapter. Although it is difficult to compare them on more advanced level, at least some collation from the point of view of a venture can be done. The summary is presented in the Table 1 on the next page. The chapter following the table is devoted to the topic of the research design.

TABLE 1. Ways of financing ventures – summary

Name of method	Stage at which most useful	What they invest in / when applicable	Given in return	What is provided to a venture
Bank Loans	Later stages, when lower risk associated with a company	Ventures with hard assets, non-technology-based companies	Loan repayment and interest	funds
Venture Capital (VC)	Later stages (e.g. beginning of an innovation's commercialization)	High-growth market segments, good industry, competent management	Equity ownership, high return on the investment, preferential treatment	Funds, in some cases support
Business Angels	Often already at the seed-level stage, early stage	Close-to-home companies, industries they have experience with, ventures with big potential for growth	Equity ownership, return on an investment (more favorable conditions than venture capitalists).	Funds, support, expert advice
Bootstrapping	Early stages, not sufficient in the case of growth	Entrepreneurs not sure of the markets for their products, entrepreneurs with a specific mind-set and the “try-it, fix-it approach”	N/A	Independence from external investor, flexibility, time for learning for an entrepreneur
Crowdfunding	Initial stages	Variety of projects and ventures, variety of sectors, even high-growth start-ups	Rewards or equity	Funds, feedback, support, evaluation of an idea

3 DESIGN OF THE RESEARCH

The literature on crowdfunding, and particularly the Polish one is quite limited. Therefore the author's aim is to contribute to this area. Main objective of this thesis is to prepare some suggestions for Polish start-ups, so they would, firstly, consider using crowdfunding and secondly, do it in efficient way. This chapter presents the path from clearly stating the research questions, all the way through the research until presenting its results.

3.1 Philosophy, Approach and Methods

Presenting the research philosophy is important as, according to Saunders, Lewis and Thornhill (2009, 108), it contains major foundations regarding the way in which the researcher sees the world. This, in turn, supports the research strategy and choice of the methods used (op. cit. p. 108.) Philosophy applied in this research is interpretivism. As Orlikowski and Baroudi (1991) state, "Social process is not captured in hypothetical deductions, covariances and degrees of freedom. Instead, understanding social process involves getting inside the world of those generating it" (Walsham 2004, 7). The researcher believes that people put subjective interpretations to situations they are in and to the way the world works. Moreover, as crowdfunding is a rather new phenomenon, its shape is changing over time and so is the way people perceive and understand it. Thus, it is important for the researcher to focus on individual perspectives and details behind the situations and examples in order to get a deep insight into the phenomena.

The approach adopted in this research is a specific combination of deduction and induction, with major emphasis on the latter one. The crowdfunding topic is relatively new and there is still little related literature available. Yet, from the existing literature there can be built some framework and research questions can be at least partially answered. General understanding of the crowdfunding phenomenon and its characteristics can be drawn and their justness tested in further research. This proves accuracy of deductive approach. On the other

hand, inductive approach plays significant role in this research. It consists in collecting data, analysing them and developing a theory based on the results (Saunders et al. 2009, 124–128). As mentioned above, concept of crowdfunding is rather new and available literature is relatively scarce. Conducting inductive research allows for taking alternative explanations on the events related to the phenomenon. In addition, the researcher herself is somehow engaged in crowdfunding and thus is a part of the research process. In inductive approach a need for generalization is rather limited and hence more room for seeing things depending on their context exists. Therefore, sample taken can be small and various methods of collecting qualitative data can be applied.

In this empirical research the data is collected by using multi-method qualitative study. Information is drawn from primary and secondary sources. The latter ones include blog of K. Król and webpages of, among others, Polish crowdfunding platforms. Primary data comes from two interviews, where the respondents are people engaged in crowdfunding from different perspectives.

3.2 Data collection

The data for the research comes from secondary and primary sources. Already when considering the thesis topic, the author checked the existing information on crowdfunding in Poland. As mentioned earlier, the amount of information is limited, yet there are some sources which raise this topic. The most informative source is crowdfunding.pl, a portal created about two years ago, which highlights this concept. Besides, knowledge can be learnt also from websites of Polish crowdfunding platforms. Moreover, other websites also deal with crowdfunding. However, the information seems to be copied from one site to another and thus, the websites do not bring as much additional value as expected.

The author used secondary sources for building up her knowledge on the subject, trying to understand what crowdfunding looks like in the Polish context. Unfortunately, in many cases a piece of information published on one website occurred to be contrary to a piece put on another. It raised the

author's doubts regarding the validity of those pieces of information. Thus, the author decided to clear the doubts and investigate the dubious issues in a further study when primary data was collected.

3.2.1 Sampling – interviewees

Since crowdfunding mostly takes place on the Internet, this tool was used to identify the potential interviewees who would make up the sample. The design of the research allowed for choosing a small sample. The author's intention was to discuss with people involved in Polish crowdfunding for different reasons and from different perspectives. This would enable establishing a wider understanding of the entire concept by seeing different points of view and experiences. The results would be also more objective.

Three types of people to be interviewed were chosen:

- a person running a crowdfunding platform
- an entrepreneur who has used crowdfunding for fundraising a start-up
- a specialist in crowdfunding.

Firstly, the author also wanted to interview a crowdfunder. Then she realized that, even though she had supported some initiatives herself, she would have not had much to say about crowdfunding if she had not been writing a thesis about it. Thus, it seemed understandable that crowdfunders might have limited knowledge about crowdfunding. The author decided to focus on those who know this subject well enough to answer at least a majority of the questions.

The final decision regarding on whom to interview was not that difficult, as the number of people involved in this rather new concept in the Polish reality is quite limited. Karol Król, who has published the most pieces of information in Polish concerning crowdfunding was clearly picked as a specialist. At the time when research was being planned, the most popular crowdfunding platform in Poland was the PolakPotrafi.pl. Thus, the author chose its manager Jakub Sobczak as a potential interviewee. The biggest problem was to find a start-up which had already used crowdfunding for collecting money. At the time when research was conducted, no equity-based crowdfunding initiative had been finished. Also, among successful reward-based initiatives, it was hard to find

an actual start-up. Most of the ideas were one-time projects. Yet, one example was finally identified and selected as the sample's element.

All the potential interviewees were first contacted by e-mail. Jakub Sobczak and Karol Król agreed to having an interview. The entrepreneur was too busy with starting his business, thus he proposed that he would answer the questions in a written form. The question list had been sent to him by e-mail. Unfortunately, the entrepreneur did not provide answers as promised, despite a reminder from the author. Thus, the sample only consists of two interviewees.

Jakub Sobczak, the manager of PolakPotrafi

Jakub Sobczak is one of the creators and the manager of [PolakPotrafi](#), a Polish crowdfunding platform which was launched on 15th of March 2011. By the time of the interview they have raised money for about 30 projects. The PolakPotrafi team provides support for people who want to publish their projects. Thus, besides managing the platform, Jakub Sobczak has also much experience with initiatives themselves.

Karol Król

Karol Król is a passionate fan of crowdfunding. In 2011 he wrote a thesis which is the very first academic paper in Polish about this topic. For the thesis's sake he has invented a Polish translation of the “crowdfunding” term (“finansowanie społecznościowe”) and is popularizing it in the country. For about two years Karol Król has been the editor-in-chief of [Crowdfunding.pl](#), the very first source of information in Polish regarding this concept. He is also a vice-chairman of the Polish Crowdfunding Society. By the time of collecting data Karol Król has become a member of the team which created [Beesfund](#), the very first platform in Poland offering equity-based crowdfunding.

Interestingly, several days before the interview, Karol Król successfully raised funds for publishing his book regarding crowdfunding. Thus, all in all, this one person provides very wide understanding of the crowdfunding concept – from perspectives of: a fan, a person involved in running a platform, a successful project originator and finally the specialist.

3.2.2 Questions

Already when reading the available literature, the author has identified key themes and has written down all the questions which came to her mind. Some arouse when an information gap was found in the literature. Some were a result of thinking through other authors' considerations and trying to understand them in the Polish context. The author wanted also to bring the question of crowdfunding from more general view into a perspective of Polish start-ups. Hence focus on some details. Moreover, as already mentioned, there were contradictory pieces of information regarding several issues in some secondary sources. The author decided that it would be better to receive information from someone who actually knows what it looks like. Thus, those issues were also raised in the questions.

A primary outline for interviews was prepared based on above-mentioned open questions. However, the actual outline was adjusted to particular interviewees. Some questions were added, edited or deleted. As Lam (2009, 277) stated, if an interviewer allows interviewees for bringing up their experience, lots of information is covered without much implying. The researched put this into practice and each list started with questions regarding the interviewees themselves, their stories and previous experience. Moreover, as the idea was to conduct semi-structured interviews, some questions came during the interviews, as a result of what had been heard. Thus, actual lists of questions differed one from another. All the questions were translated into Polish. Both versions of primary outlines, English and Polish are attached in Appendices 1 and 2.

3.2.3 Interviews

The semi-structured interviews were conducted on Skype. One lasted about 90 and another about 120 minutes. Both respondents were asked for their permission to record the interview. Audio files (two per each interview) were transcribed afterwards. Interviewees allowed the author for using their names in this paper.

The empirical research was conducted in Polish. The author did not want to condition her research on whether the interviewees spoke English and were willing to do so. Moreover, since all the parties involved (the interviewer, the interviewees) are Poles, it seemed more natural to speak in mother tongue. Using Polish language helped in building a relationship with all the respondents and facilitated the communication. An important fact is also that the research applies to the Polish context. Thus, it was easier for interviewees to mention some specific questions, which could be understood only in Polish. Additionally, all the legal concerns could be addressed more easily. The author wanted also to avoid misinterpretation of some terms by different parties.

3.3 Data analysis

The primary data was handled by using the computer assisted qualitative data analysis software, NVivo. The audio recorded interviews were transcribed by means of it. Particular pieces of information in the transcripts were summarized and coded into nodes (a code is called “node” in NVivo). Figure 2 illustrates the coding process.

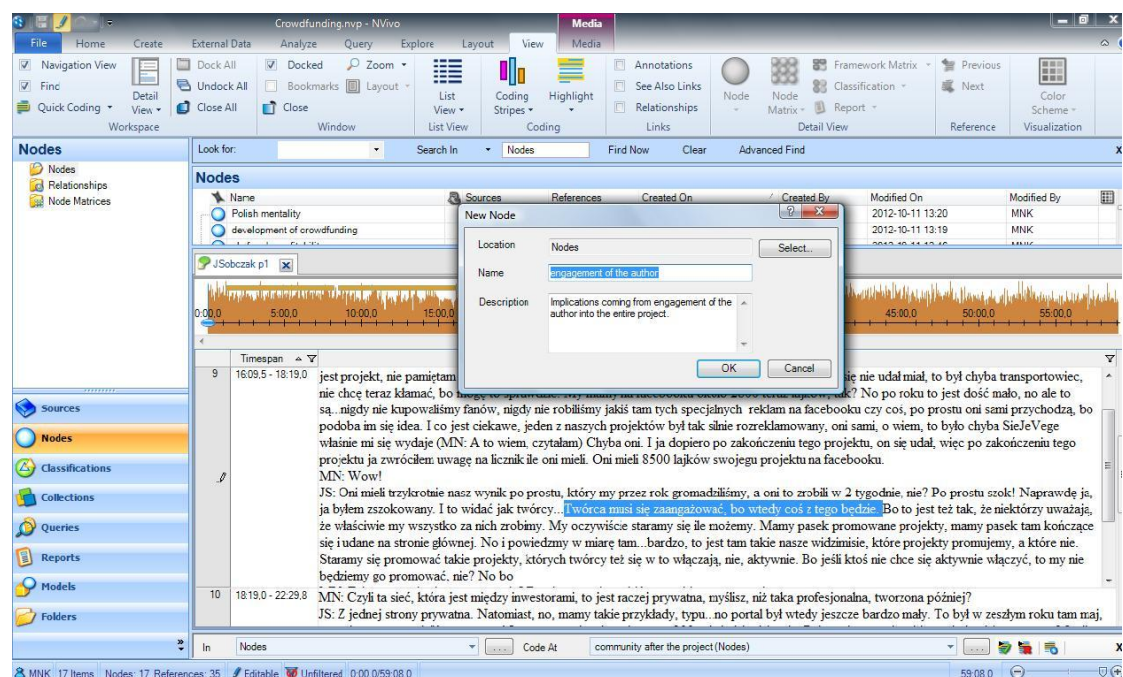


FIGURE 2. The process of coding in NVivo

Although the transcripts are written in Polish, names of the nodes were chosen to be in English. By doing so, the author wanted to avoid further misinterpretation which could happen if, at a later stage, names of final nodes or the results themselves were translated into English. Then some differences between the actual meanings and translations could occur. This would affect the interpretation of the results.

After coding all the transcripts, the accuracy of nodes and the text references was checked in order to avoid any mistakes and misinterpretations. In the next stages key issues and patterns were identified. Based on them, the nodes were categorized and structured in tree nodes. In the end they created four main categories. Figure 3 shows exemplary model created around one of the main tree nodes (one of the four categories) in NVivo.

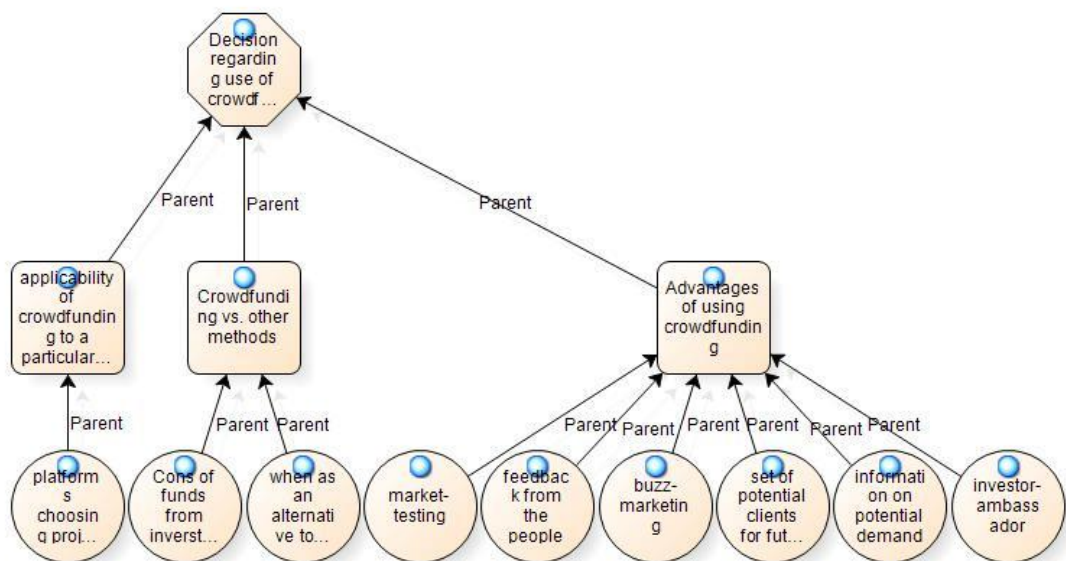


FIGURE 3. The structure of one of the main tree nodes, model created in NVivo

List of all the major nodes printed from NVivo is attached in Appendix 3. There were in total four sources, as each interview was recorded in two parts and each part transcribed separately. The number of references indicates how many times particular code was assigned to a piece of text. However, one has

to bear in mind that it is qualitative not quantitative study. Thus, bigger number of references does not mean that the issue is more important. Information may be just provided in more pieces, as sometimes the question was addressed in the entire paragraph, sometimes just in one sentence, while an interviewee spoke actually about something else. Moreover, only the main level of tree nodes is presented in the Appendix 3. The whole structure is very complex. All in all, statistical approach cannot be taken in analysis of the nodes. Thus, all the issues covered by the nodes are important from the author's point of view and are presented in this paper.

3.4 Validity of the research

There are some issues regarding the quality of the data which have to be considered in order to confirm the validity of the research. Firstly, although data collected from different respondents may vary, it is still reliable as it presents what the situation looks like in a certain moment of time. Moreover, the findings will be still valid after the thesis is published.

In the research ethical issues were very much taken into consideration. As mentioned, all the respondents were first contacted by e-mail. They were informed about the purpose of the research, what steps had been taken beforehand and where the results would be published. Each respondent was asked about his willingness to participate in the process. The decision was made entirely by them. Each interviewee was also asked for a permission to record the conversation as well as for a permit to include his name in the thesis. The interviewees were also promised to get access to a final version of the thesis, so they could see and accept the results. Moreover all the respondents were informed that they could skip any question if not having time or just not willing to answer it. In the author's opinion, the answers given without forcing are obtained in ethically correct way and have higher credibility. Besides, the author believes that fact that interviewees allowed for putting their names in the paper proves high-class of the data provided. The respondents are well respected people and they would not like to sign something they do not believe is of high quality.

The author tried to achieve objectivity by interviewing people involved in crowdfunding in three different ways (manager of a crowdfunding platform, entrepreneur who raised funds for his start-up on a crowdfunding platform and an expert in crowdfunding). However, there is still a threat of lower reliability, especially as the sample was very small and since in the end answers were provided only by two people. Yet, respondents are representatives of a very narrow group of people who actually know the concept and who actively participate in development of crowdfunding in Poland. Thus, their opinion is very important and can be seen as a voice of majority. Interestingly it occurred that the interviewees are not only interested in crowdfunding for different reasons and in different ways, but they also differ from each other in terms of their educational background and practical experience. Moreover, as proved in the part regarding sampling, both men who were interviewed, provide very wide understanding of the concept and see it from various points of view. This brings even more credibility and objectivity to the research.

The author is engaged in the investigated phenomenon as a crowdfunder. Hence her perception might be somehow influenced by this fact. However, an advantage can be seen as the author understands the idea and knows how it works in practice. Thus, she has good understanding of the concept and of the data collected. In effect the analysis should be more reliable.

Conducting a semi-structured interview leads to higher reliability of the data. This form is quite flexible. Some questions can be omitted if covered already in other answer(s). Thus it prevents an interviewee from becoming annoyed by going through the same issues over and over again. Some questions can be brought up during the interview in relation to what is said by the interviewee. By applying this, particular concepts can be analyzed deeper. Moreover, using open questions enables the respondents to speak their minds without limitations in terms of suggested answers. Yet, because of the interviewees having much to say to the open questions, the interviews occurred to take lots of time and thus interviewees were tired at the end of each interview.

Data collected in the interviews may be somehow biased. Firstly, the interviewer could influence interviewee's answers during the conversation. It

might happen when e.g. there is a need to clear the meaning of a question to the interviewee. The interviewer may want to suggest one of the potential answers (based on knowledge she already has) in order to explain the context of the question better. However, as occurred in the research, respondents are professionals. They do not accept easy answers and they use their time to provide as comprehensive answer as possible. Secondly, as each interviewee is engaged in a different crowdfunding platform, their answers may be biased by professional and emotional factors. Yet, the research embraces both platforms and design of the research supports the reliability as it enables seeing different points of view and does not require generalization in all the cases.

The last issue to be considered is a language. The data was collected in Polish, although all the analysis is done and thesis is written in English. The choice of the language for the empirical research was already discussed in the previous part of this chapter. Yet, it might have some impact on validity of the research. The author is the only person interpreting the data and translating quotes into English. Thus, very much depends on her interpretation. However, the author has studied International Business in English for more than two years already. Moreover, she has professional experience in translating business related texts and interpreting conversations from English to Polish and vice versa. Thereby, the author proves to have sufficient language skills for handling a valid research including usage of both languages.

4 CROWDFUNDING AS AN OPTION FOR POLISH START-UPS

The research gave very elaborate results, which have been divided into three chapters. This chapter focuses firstly on presenting how crowdfunding looks like in Poland nowadays and what its main features are. The purpose of the further parts of this chapter is to help entrepreneurs in making a decision whether crowdfunding can and should be used as a way of financing for their start-ups and what benefits it could bring.

4.1 Overview of crowdfunding in Poland

It is not easy to find financing in Poland. There are many people with interesting ideas, who need to postpone their projects until an undefined moment in the future, when funds will be available. Access to finances in Poland is limited. There is a capital gap existing for people who want to raise an amount in a range from PLN0 to PLN800,000 (PLN - Polish zloty, from now onwards). It is easier to get greater amounts. Thus, crowdfunding can be seen as a way to swamp the gap which, contrary to what is said in Poland, really exists.

Unfortunately, some Polish media feed the public with unverified and spurious pieces of information regarding crowdfunding. They equate crowdfunding with public fundraising and thus throw the people into confusion. In Poland, public fundraising is controlled by the government, and at this moment every initiative of this kind requires permission from a relevant minister. However, crowdfunding (which always counts some benefit in return for money) is **not** public fundraising. Thus it is not a subject of the act regarding public fundraising and does not demand any permission from the minister. Although there is no specific act concerning crowdfunding at present, this option can be used within the existing Polish legal environment and is legal.

Even though crowdfunding exists in Poland, it is not yet a regular form of financing. As it was stated by one interviewee, “when it comes to financing in Poland, crowdfunding is still somehow crawling after all” (in original: “jeżeli chodzi o finansowanie w Polsce, no to crowdfunding mimo wszystko dalej jakoś tam raczkuje”). There are some reasons for this. So far, only several dozens of projects have gained money through crowdfunding. According to the interviewees, crowdfunding will become popular because of numerous successful large scale projects. Although every day more and more people are getting familiar with the concept of crowdfunding, it is not reflected in the number of payments and amounts of money given. The Polish mentality seems to play an important role in this issue. In one interviewee's opinion, some Poles have a dog-in-the-manger attitude. This means that they are not willing to offer something to somebody even though they themselves do not

make use of it. Thus they need time to realize that giving somebody a small amount of money does not make them any poorer. Moreover, Polish people are rather wary and very cautious about giving their money to anybody. However, as one interviewee mentioned, also in Germany, where the culture of sharing with others is more developed, it is not so easy to raise money through crowdfunding. Anyway, the importance of crowdfunding in Poland was clearly stated as follows:

*I liked the idea very much and, primarily, I was confident that it is not only needed in Poland and can work, but it is even desirable...
(originally: i bardzo mi się ta idea spodobała, a przede wszystkim byłem przekonany, że ona jest w Polsce nie tyle, że potrzebna i może się sprawdzić, ale ona jest wręcz pożądana...)*

Polish crowdfunding is definitely advancing. More and more people are perceiving it as a way of gaining financing. Projects as well as the amounts asked are becoming more audacious. The idea of crowdfunding is being rooted in the awareness of Poles. It is a fascinating topic: “The switch from a product to a project is sexy, people like it, like it a lot and are willing to talk about it” (in original: “To przejście od produktu do projektu jest seksi, ludziom się podoba, bardzo im się podoba i chętnie o tym mówią”).

In March 2012, the Polish Crowdfunding Society was established (See Król 2012). Its statutory objectives include the promotion of crowdfunding and educating people about it. The Polish Crowdfunding Society strives for Poland having an act regulating the access to capital from Internet users. The discussions are well advanced, but it still takes a long time for any arrangements to come into effect.

In Poland, similarly like in other countries, crowdfunding relies on a new type of capital provider – a person who spends money differently than a professional investor. The person likes the project idea or the approach and charisma of a project initiator, and he is interested in similar issues. He wants to invest for various reasons, but does not rely in his decision on cold calculations of economics. Thus, there is a big chance for closing the capital gap. Yet, it very much depends on every crowdfunding initiative undertaken.

For this reason, every person planning a start-up should consider it a way of financing.

4.2 Decision regarding the use of crowdfunding

When having different possibilities, an entrepreneur should weigh them up very carefully. This chapter aims at presenting when crowdfunding should and when should not be considered as one of the options; how it should be seen compared to other financing means and what advantages it brings to a start-up.

4.2.1 Applicability of crowdfunding to particular projects

There are some types of projects for which crowdfunding does not work at all. First of them is a “dream idea” - something which is actually not a project, but a concept regarding which nobody (including the originator) can be sure that it would ever become a reality. One cannot promise to a crowd something if there is no way he can make it. The crowd will react and comment it immediately. Another example is an easy-to-be-copied idea. If anybody else can do exactly the same thing, sooner or later the idea will be copied. Thus, there is no point of revealing a business idea to the entire crowd. This implies also that all the projects involving not protected by patents intellectual property should not be the subject of crowdfunding:

because if I don't intend to protect myself with patents or protect utility models at this stage, it means that I don't intend to do this also after starting my business. So, what is the difference? Either way someone will steal it! (in the original: bo jeżeli nie zamierzam się chronić patentami, czy jakiś wzorów użytkowych chronić i tak dalej na tym etapie, to znaczy, że nie zamierzam też również po uruchomieniu swojej firmy. No to co to za różnica? Tak czy inaczej ktoś to ukradnie!).

Thus very innovative ideas which can be cloned by others are not good crowdfunding initiatives. Crowdfunding is also not applicable to very big projects.

It is also important to remember that, if someone decides to use a crowdfunding platform to raise money for his idea, people from the platform still have the last word. It means that they do not publish every initiative, but

select those they find appropriate for the crowdfunding concept. The most important distinction is made between actual projects and unrealizable ideas (with latter ones simply rejected). The platforms are not interested in people who want to get funds to e.g. repay the loan or are actually not even sure how they would utilize the money. Moreover, they want to see engagement of an author of a project in the entire idea. Thus, they do not like the cases when an originator does not want to get involved, however he plans to employ people to make the whole project for him:

He will hire a programmer, he will hire a marketer, he will hire an IT specialist, who will take care of something else, he will hire a legal firm. And basically he will not do anything in that company, so it is totally not his industry. And he will be only sitting and giving the commands "You do this, you this, you this" and people have to finance it. Well, to be honest we don't want such projects. (In original: On sobie zatrudni programistę, on sobie zatrudni marketingowca, on sobie zatrudni informatyka, który mu będzie ogarniał co innego, on sobie firmę prawną zatrudni. I w zasadzie on nic w tej firmie nie robi, czyli to zupełnie jakby nie jego branża. I on tylko będzie siedział i wydawał polecenia: "Ty teraz zrób to, ty tamto, ty tamto", a ludzie mają mu to sfinansować. No, szczerze mówiąc nie chcemy takich projektów.)

Crowdfunding can be applied to many types of projects. What is important, is to have a project which actually can be realized. There should be a clearly and precisely determined purpose. The project itself should also represent some quality and value to the crowd. Some people are afraid that their idea will be stolen, "But if there is something...something sensible and one cannot copy it in a half of hour, it may be worth, right?" (originally: "No ale jeżeli coś jest, coś takiego sensownego i nie można tego skopiować w pół godziny, no to może warto, nie?"). Moreover, a project initiator himself is an extremely important element of making a decision:

If an originator is not unique and does not provide any special value to the project, anyway someone will do it if he wants to do it (in original: Jeżeli projektodawca nie jest wyjątkowy i nie wnosi jakiejś szczególnej wartości dla projektu, to tak czy inaczej ktoś to zrobi, jak będzie chciał to zrobić).

4.2.2 Crowdfunding vs. other financing options

Although, as mentioned in one interview, "it is a question for a two-volume book" ("to jest pytanie na dwutomową książkę"), some comparison of crowdfunding and the other financing options can be done. First of all, unlike

in deals with professional investors, in crowdfunding intellectual property over an idea and a project remains entirely in the hands of the project initiator. Moreover, contrary to what it looks like in agreements with venture capitalists or business angels, an entrepreneur is not required to hand over any shares in a start-up, unless he decides to use equity crowdfunding. Thus, in reward-based crowdfunding, an originator gets 100% of earnings if the initiative is successful. Also, he still has full right to make decisions on the project: “Nobody will tell you that an orange should be green and not orange” (originally: “Nikt ci nie będzie mówił, że pomarańcza ma być zielona a nie pomarańczowa”).

When dealing with e.g. business angel, an entrepreneur has to be prepared for long negotiations. It would not be so serious disadvantage in many cases if there was a big chance that discussions would have a positive result. However, professional investors reject vast majority of projects. Moreover they expect high profitability in a very short time.

Then they pressurize you because they want to exit the investment in three years time and want to have 1000%, right? It is difficult to get to this, well, they have 1000 projects and reject 99%. (In original: Potem jeszcze cię przyciskają, bo oni chcą z inwestycji wyjść za 3 lata i chcą mieć 1000%, nie? Trudno jest się do tego dostać, no oni mają 1000 projektów, odrzucają 99%.)

It does not look like this with crowdfunding. Crowdfunding platforms certainly make some selections, as mentioned in the previous sub-chapter. However, they do not make their decisions based on a profitability of a project:

We reject, I don't know, 10 out of 90, maybe even a little more, a little less. But there is no such thing that we refuse because it doesn't pay for us. It has to pay for you...for the originator most of all. (Originally: My odrzucamy, nie wiem, 10 na 90, może nawet trochę więcej, trochę mniej. No ale nie ma czegoś takiego, że odrzucamy, bo nam się to nie kalkuluje. Tobie to się... twórcy ma się kalkulować przede wszystkim.)

Another issue which distinguishes crowdfunding from other financing means is that a product switches to a project. There is no more simple connection between the producer and the product. The originator cooperates with a fan of the project who comments the ideas, suggests some solutions and, most of all, backs the initiative. Then fan – crowdfunder becomes a client, he may also invite others to become clients.

As already mentioned, crowdfunding has different type of capital provider than other options of funding. Essentially the crowdfunders are people who do not participate in the capital market professionally. It is enabled by spreading the risk on many people and lowering the amount which allows each of them to support the initiative.

In crowdfunding the requirements concerning an entrepreneur himself are lowered and sometimes even totally eliminated. Contrary to what it looks like when dealing with professional investors, when planning a crowdfunding initiative, the entrepreneur is not demanded to provide very specific data. He does not have to show the track record (unlike in banks), present some concrete numbers (wanted however by venture capitalists), or prove that he has years of experience in the industry and that his company has been operating for several years already. In crowdfunding “you basically write 'I want to do this' and it may work” (originally: “zasadniczo piszesz 'chcę to robić' i może się uda, no!”). It depends on the entrepreneur how he wants to convince people to support his initiative. There are no requirements regarding this.

One issue that might discourage some entrepreneurs from using crowdfunding is that there is another type of capital gap existing for this option – capital gap which works the other way around. In crowdfunding rather small amounts of money are raised: “It is easy to raise a little capital, but it is difficult to expect that someone will collect, I don't know, 6 million or 60 million.” (originally: “Łatwo jest pozyskać mały kapitał, ale trudno się spodziewać, że ktoś pozyska, nie wiem, 6 milionów albo 60 milionów.”). Interestingly, there were no direct disadvantages of crowdfunding in comparison to other methods mentioned in the primary data.

In spite of all the similes, crowdfunding is not yet generally considered as an alternative to other financing means:

Crowdfunding is nice as a method, but actually as an alternative source of capital there has to be, I don't know, 100 million per year invested in the companies to say that it is an alternative. (Originally: Crowdfunding jest fajny jako metoda, ale tak naprawdę jako alternatywne źródło

kapitału to musi być to, nie wiem, 100 milionów złotych rocznie w takie firmy zainwestowane, żeby stwierdzić że to jest alternatywa.)

Maybe then its description will appear in all the textbooks on finance.

4.2.3 Benefits from using crowdfunding

There are some virtues of crowdfunding which show a start-up why this particular form of financing should be used. They are presented in this sub-chapter. They can help in making a decision regarding a source of financing for a start-up.

Market-testing

It can be checked right away if there is actually a market existing for a product or a service offered by a start-up. If people are interested in the project, support it even though the product or the service is not ready yet, it means that market wants the idea. Moreover it can indicate that there are some other people who would be willing to have the product or the service when it is ready and more widely available. So, crowdfunders as clients can be just a beginning and represent only a part of the market.

Feedback

People using crowdfunding give their ideas for a public evaluation. They always receive some feedback (even complete lack of support is a feedback). Most often people express their opinions by providing money. This is the best form of endorsement for the idea:

This is a public evaluation of a project and people vote with their money, what has the highest value, because simply if I give you money, it means that I trust you in some way and I like the idea. (Originally: To jest publiczna ocena projektu i ludzie głosują swoimi pieniędzmi, co ma największą wartość, bo po prostu jak ja daję tobie pieniądze, to znaczy że ja tobie w pewien sposób ufam, a projekt mi się podoba.)

Crowdfunding is also a source of a verbal feedback. There are many people supporting and observing the project who actually express their opinion. They may say if something will work, back the solutions, suggest some changes or state that they would prefer one thing to another. Also the project originator

can address them when having some doubts regarding the idea or a direction the project follows. The entrepreneur receives important information: “I have already a feedback what people want at this stage” (originally: “i ja mam już feedback czego ludzie chcą na tym etapie”).

Information on potential demand

Thanks to crowdfunding, an entrepreneur receives valuable information about potential demand on an idea behind his project. The respondents were not fully coincident which remuneration scheme generates more reliable information on this topic. The most common and first opinion was that it is a reward: “Definitely the reward, because the truth is that if the rewards are unattractive, the project has no chance for implementation.” (in original: “Zdecydowanie nagroda, bo prawda jest taka, że jeżeli są nieciekawe nagrody, to projekt nie ma żadnej szansy na realizację.”) Another argument was that if there are various objects or services offered as rewards, an entrepreneur has full picture which one is most interesting for people – what most of the people want.

It seems that on one hand an advance sale of a product/service is a great indicator of potential demand. On the other hand, the presence of an investor who is interested in the equity of a start-up, may also be a proof of the demand. It applies especially to a situation when investor comes and provides significant funds in exchange for equity. Then another people are more eager to support the idea as the project has bigger probability of becoming successful – thus they are more likely to actually get their rewards. However, very often an investor comes only when many crowdfunders have already backed the project. There is no unambiguity here: “So it is probably such combination that it will be switching in a number of iterations...” (Originally: “Więc to chyba będzie kombinacja taka, że w kilku iteracjach to się będzie zmieniało...”).

An entrepreneur should bear in mind that there has not been any advanced research on this topic implemented, and thus presented information expresses personal opinions of the respondents. Yet, an evident result from this part is

that, independently of a remuneration scheme chosen (reward or equity), there can be always some information on potential demand on the object of a project received.

Buzz marketing

As crowdfunding is based on a new type of a capital provider, there are also some new options how to reach those people: “The story changes and it is very easy to obtain this free marketing” (In original: “Zmienia się historia i bardzo łatwo jest pozyskać ten darmowy marketing”). People share information with each other on Facebook and other social media. There are some discussions, exchange of information. An entrepreneur can simply ask his friends to circulate a link regarding the project. The link is relayed and more and more people know about the project. It works because people have bigger trust towards other individuals than towards organizations:

And yet it is wrapped not in advertising, which we are becoming immunized against, but in the recommendation of a friend, which is by all means currently, nowadays, an effective way of promoting anything. (Originally: A jeszcze jest opakowana nie w reklamę, na którą się uodparniamy, tylko w rekomendację znajomego, która jest jak najbardziej teraz obecnie, w obecnych czasach, skuteczną formą promocji czegokolwiek.)

Thus, potential clients not only can find information on the project, but also share it with others.

Ambassadors

This thing applies mostly to the equity crowdfunding, but can be also found in the reward-based form. Every person who acquires equity in a start-up, certainly has an interest in development of the company. Thus, she becomes not only an investor, but also an ambassador. She spreads the news about the start-up, encourages people to buy a product or a service offered by the company, invites people to various events; simply tells everybody about the idea. Moreover, in any kind of crowdfunding, a crowdfunder has personal attitude towards the project:

In the case of equity crowdfunding, in fact generally crowdfunding, they are ambassadors of the only product. They feel as co-authors. And in the case of equity crowdfunding they also gain from the success. (Originally: W przypadku equity crowdfundingu, zresztą generalnie

crowdfunding, to są ambasadorzy jedyne go produktu. Oni się czują współtwórcami. A w przypadku udziałowego, no to jeszcze korzystają na sukcesie.)

Set of potential clients

Every entrepreneur, whose idea has been supported by a crowd, has a list of his crowdfunders and contact information to them. This data can be used in the future, when a new idea for a product or a service will arise. Crowdfunders are the ones who could be contacted in the first instance and informed that something new has been created. It is very likely that at least some of them would be interested in the new product or service. Thus, crowdfunders can be perceived as a base of potential customers.

5 THE ACTUAL PROCESS OF USING CROWDFUNDING

If entrepreneurs decide to use crowdfunding for their start-ups, they should think about the entire process well in advance, before even applying to a platform. This part describes all the major decisions which need to be made and the different possibilities which appear at various stages.

5.1 Equity and reward-based crowdfunding in Poland

Those willing to use crowdfunding as a source of financing for their start-ups can decide for either equity or reward-based crowdfunding. There is also an option for a hybrid (joint reward-based and equity crowdfunding). So far, no company has used it in Poland.

Equity crowdfunding

In Poland, equity crowdfunding can be used only by registered co-partnerships: a limited liability company, limited joint-stock partnership or joint-stock company. One cannot offer shares or stocks in a company which does not exist yet:

You cannot sell the shares which don't exist. For legal reasons, but also for practical ones. It may occur that the court will not let you, will not register the company, because ... something. (In original: Nie możesz sprzedawać akcji, które nie istnieją. Ze względów prawnych, ale też praktycznych. Może się okazać, że sąd ci nie pozwoli, nie zarejestruje tej spółki, bo...coś tam.)

Thus, in order to conduct an equity crowdfunding initiative, an entrepreneur has to decide for and register one form of co-partnership. Table 2 presents the main features of three types of co-partnerships in Poland which can be used for that end.

TABLE 2. Forms of co-partnerships in Poland and their features

	Limited liability company	Limited joint-stock partnership	Joint-stock company
Name and abbreviation in Polish	Spółka z ograniczoną odpowiedzialnością (Sp. z o.o.)	Spółka komandytowo-akcyjna (S.K.A.)	Spółka akcyjna (SA)
Minimal original capital	PLN5,000	PLN50,000	PLN100,000
One unit of ownership in the co-partnership	Share	Stock	Stock
Minimal nominal value of one unit	PLN50	PLN0.01	PLN0.01
Sale of a unit in a presence of a notary	Yes	No	No
Fee for the notarized sale of each unit of ownership	PLN500 - PLN700	Not applicable	Not applicable
Maximum amount of money the co-partnership can raise in public offering without registration in proper institutions	No limit	The equivalent of €100,000 at the exchange rate on a day of announcing an offer of shares sale.	The equivalent of €100,000 at the exchange rate on a day of announcing an offer of shares sale.
Additional regulations	None	Information to Polish Financial Supervision Authority (Komisja Nadzoru Finansowego) and tax office that public offering has taken place.	Information to Polish Financial Supervision Authority (Komisja Nadzoru Finansowego) and tax office that public offering has taken place.

A limited liability company seems to be very convenient form, also because it can be registered on the Internet, without a notary and any additional costs. However, there are drawbacks based on the law of commercial companies, which sets the minimal nominal value PLN50 per one share:

... which means that if you deposit PLN5000, you have 100 shares for PLN50 each. You want a support of some crowd out there through the Internet, but you want to keep e.g. 60% of ownership and sell 40%, so you have only 40 shares. So you can have a maximum of 40 investors. Well, it's not such a 'crowd' any more, because if you want to gain PLN100,000, everyone has to pay you, let's say PLN2500, right? (Originally:... co oznacza, że jak wpłacisz 5 tysięcy złotych, to masz 100 udziałów za 50zł. Chcesz wsparcie jakiejś tam społeczności przez internet, ale chcesz zachować np. 60% własności a 40% sprzedać, to masz tylko 40 udziałów. Czyli maksymalnie możesz mieć 40 inwestorów. No to to już jest trochę mało społecznościowe, bo jak chcesz pozyskać 100 tysięcy złotych, to każdy musi ci wpłacić, powiedzmy 2500zł, tak?).

Moreover, the fee for a notarized sale of each share is very likely to be higher than money provided to the company by a crowdfunder.

A limited joint-stock partnership and joint-stock company can issue a large amount of stocks and, when wanting to obtain capital, can offer e.g. 40% of them in crowdfunding (one by one or in blocks of stocks). Hence, they can reach a capital provider, who provides relatively small amount of money (e.g. PLN50). The EU directive, regulating that maximum equivalent of €100,000 can be raised in a small public offering of stocks, limits the range of equity crowdfunding. Yet, the amount should be sufficient for Polish start-ups. However, minimal original capital for a limited joint-stock partnership and joint-stock company may be an impassable threshold for many start-ups. After all, according to one interviewee, currently the most convenient form of co-partnership for equity crowdfunding is a joint-stock company.

The Polish Crowdfunding Society strives for changing the law so it would be easier to apply the equity crowdfunding to a limited liability company. One change could be that one share has a minimal nominal value of e.g. PLN1, as there is no legal or practical explanation why it is set so high at present. Also other changes with e.g. notarized sale of shares could be made. Yet, there is a chance for making equity crowdfunding more easily applicable to a limited liability company: “from this limited liability company there can be done a nice solution, which would simplify it legally” (in original: “z tej spółki z.o.o. można zrobić fajne rozwiązanie, które prawnie to, wiesz, jakoś uprości”).

Reward-based crowdfunding

As reward-based crowdfunding is significantly more developed than equity-based, many issues in the following parts of the results refer to this form.

Thus, the author decided to omit an expanded description in this place.

5.2 Forms of using crowdfunding

People willing to obtain financing through crowdfunding have several possibilities. They can create their own website where they ask people to support them and their initiative by transferring some money to their bank account. Open source platforms place special tools on their pages, so users could consider making a donation for the platform. Some people organize meetings and special events where they ask people for support. However, all the forms seem to be inferior in comparison to crowdfunding platforms. In 2010 Lambert and Schwienbacher stated that platforms were rarely used for crowdfunding. Nowadays the situation is totally different: “two years have elapsed. I think they hadn't assumed so big success of Kickstarter, which has happened, and these other portals ...” *originally: “dwa lata już minęły. Myślę, że oni trochę nie zakładali takiego sukcesu Kickstartera, jaki się zrobił, i tych innych portali...”).

Advantages of a platform over other methods

The use of a crowdfunding platform has many advantages over other forms. First of all, an entrepreneur does not need to create the entire mechanism on his own. The platform exists and has its own tools. The people running it have already experience in creating crowdfunding projects. Thus, they can be of great help. Moreover, the platform assures security for both sides: the entrepreneur and a crowdfunder. Crowdfunders (especially in Poland) find it more difficult to support an initiative placed on a casual website. On the platform they have a guarantee that money will be returned to them if the entire sum is not collected. On the other hand, the entrepreneur is sure that when the whole amount is raised, the money will be given to him. Furthermore, as platforms are already known, being placed on one of them is already some form of marketing for the project and the start-up itself.

Given all the information presented in this sub-chapter, it is assumed in the following considerations that crowdfunding platform is chosen by a start-up as a tool of presenting the crowdfunding initiative.

5.3 What to prepare, what to consider?

Every crowdfunding initiative needs to be well-planned. It takes time to consider all the important issues. This part presents all the questions which should be dealt with and well-thought-out before an initiative is presented to a crowd.

5.3.1 Description of a project

A good description is one of the crucial elements of a successful project. Good means: “clearly and precisely defined project” (in original: “jasno, precyzyjnie określony projekt”). Firstly, the idea behind the project should be characterized and some pictures added. PolakPotrafi requires promotional video for every project. It can be info-graphics, a collage of pictures, a short appeal of the project initiator or anything else that provides a deeper insight into the actual idea. It is not a must on the other platforms, yet is recommendable to have such video(s). Entrepreneurs afraid of a theft of intellectual property should pay attention to all the details they present about their ideas.

Another issue to be thought through is a needed amount of money and reasoning behind this. It is a good idea to prepare a valuation which says how much money would be spent on what purpose – a clearly specified budget. Useful information is also how the additional money will be used if too much funding is raised. The money issue is extended in the next sub-chapter. Additional questions to be considered is how long the money collection will last and when approximately the remuneration could be shipped to crowdfunders.

Even though, most probably, this piece of information will not be published to a crowd, an entrepreneur should develop a promotion plan. It is useful for two

sides. Firstly, for those running a platform, who would see that the entrepreneur has serious intentions for raising money and accomplishing the project. Secondly, for the entrepreneur, to schedule some actions in advance. This topic is further considered in the sub-chapter concerning marketing.

Although it is not required yet, it might be helpful for the entrepreneur to present a business model for his start-up. It might seem unnecessary and obvious, yet in practice, it often occurs to be useful in defining the venture:

Many project providers and originators, also of non-crowdfunding projects, say to themselves "I'll be selling something." And they don't put fundamental questions: Who is the client? How will I acquire the client? How will I serve him? (...) So, forcing them to prepare such business model makes them start to think about their own business. This is very good. (Originally: Wielu projektodawców czy pomysłodawców, również przedsięwzięć nie-crowdfundingowych mówi sobie „Będę tam sprzedawał coś tam.” I oni nie zadają sobie fundamentalnych pytań: Kto będzie klientem? Jak klienta pozyskam? Jak go obsłużyć? (...) Więc zmuszenie ich do przygotowania takiego modelu biznesowego sprawia, że oni sami zaczynają myśleć o biznesie. To jest bardzo dobre.)

A good idea is also that the entrepreneur presents himself, his experience, motivations for actually making the project come true. Some platforms enable linking the project description to other sites (like e.g. Facebook, GoldenLine or Allegro) which can provide more information about the entrepreneur and by this authenticate him.

5.3.2 Money-related decisions

As even the name 'crowdfunding' indicates, it is pretty much about the money. Thus, some time should be spent on considering this issue.

The minimum amount

Selection of a proper financial threshold is one of the most important decisions in every crowdfunding initiative. Obviously, the bigger the financial target, the more difficult to achieve it. Although borne in mind, however, this should not be the main determinant when deciding how much money is needed for the start-up.

Basically most people ask for funds for the entire initiative, unfortunately often including in it also a gratification for themselves. This is not a right approach. There should be an absolute minimum needed for realization of a project asked. If the project is successful, then it will bring money to the originator: “that the money is for realization of a project and not for earning. When you realize it, then make money on it.” (originally: “żeby pieniądze były na realizację projektu a nie na zarabianie. Jak go zrealizujesz, to wtedy sobie na nim zarabiasz.”).

A very important question every entrepreneur should ask himself, when defining a financial target, is 'will this project be realized if the money is not raised?'. If not, then it seems that the entrepreneur is on a right track of defining the threshold. However, if answer is yes, then the target appears to be set too high: “so you don't need [so much money], but you need some funding” (In original: “to nie potrzebuje Pani [tyle pieniędzy], tylko potrzebuje Pani jakiegoś dofinansowania”). Then, it is advised to lower the amount asked and attract people by offering interesting rewards: “If people like it, they will transfer you more.” (originally: “Jak ludziom się spodoba, to wpłacą wam więcej.”).

Another issue is that the entrepreneur should consider how much money is required for his start-up and how much he himself is able to put into this if needed. Let us say that PLN10,000 is needed for the whole start-up and that the entrepreneur is able to get PLN6,000 from some other source. It would be advisable to set the financial target on PLN4,000. If the project is attractive, people may actually contribute even several times more money than required. But even if “only” 100% is collected, the entrepreneur can add PLN6,000 and establish the start-up.

Determination of the minimum amount is on one hand a conscious choice, on the other hand it is kind of a psychological game:

and people don't understand it yet, that sometimes it is better to set less, especially if someone has a possibility, in a pinch, if something doesn't work, to subsidize it, so not to block people though (in original: “i ludzie tego jeszcze trochę nie rozumieją u nas, że czasami lepiej jest właśnie dać mniej, tym bardziej, że jak ktoś ma możliwość,

ewentualnie, jakby się coś nie udało, żeby to dofinansować, żeby ludzi jakby nie blokować”).

Still, it is one of the major decisions to be made by the entrepreneur.

Too much money raised

It seems too early to consider this question already when planning a crowdfunding initiative. However, experience coming from some projects (especially on Kickstarter, an extremely successful U.S. platform) showed that it is a very important issue and not everybody is aware of it. Thus, it is better to think about it already in advance than when it occurs to be a problem for a start-up. Crowdfunding platforms encourage every project originator to put information regarding this in a description of the project.

If a bit more money is raised, probably easy use can be made of it. Maybe some processes will be done faster, maybe new functionalities will be added to a product, maybe more objects will be produced. Also, as mentioned in the above part, sometimes the excess money can be taken into consideration in planning the strategy for a minimal amount asked. An entrepreneur counts on collecting more funding than asked and by this on avoidance of giving some money from his own pocket.

At times, however, raising too much money can be problematic for a start-up. It happens mostly when the financial target is far too exceeded. Suddenly, the scale of the business becomes very big. There have to be significantly more rewards, products or services provided. It may cause some delays. There needs to be proper logistics applied. It may be hastily required to find a new location, employ some people, maybe even reconsider the entire supply chain or find new partners. It might even occur that the money collected is not enough for designing the whole initiative over again. Big success, but also lots of issues to take care of. Not every entrepreneur is a suitable person to handle it:

“So it can someone...if someone is not prepared for such a spectacular success, it may overwhelm him.” (Originally: “No więc to może kogoś...jeżeli ktoś jest nieprzygotowany na aż tak spektakularny sukces, to może to przerosnąć.”)

All this proves that raising too much money is a very important question to be thought about in advance. Some actions can be applied to minimize possible effects of this. Ways of using extra money can be planned. Moreover, platforms have also started dealing with this issue. For example Beesfund prevents it from happening by defining a limit regarding maximum amount which can be raised in every project (usually a relatively high limit). Moreover, in the case of equity crowdfunding initiatives, there is a model “max100%” applied. This means that if less than 100% is raised, money goes back to investors. If 100% is raised, then the project is successful and more money cannot be collected. There is a specified number of shares or stocks offered by a company and providing more causes problems: “and suddenly there are found investors who will buy 130% of the company, there is just no way to fulfill this.” (in original: “a się nagle znajdują inwestorzy, którzy wykupią tam 130% spółki, to nie masz jak tego zrealizować po prostu.”).

How the money is spent

Although it was stated that a clear budget should be presented to a crowd in the project description, it does not mean that there are some limitations regarding the purposes money is used for. In the reward-based crowdfunding, the only requirement is that all the promised rewards are indeed delivered to the crowdfunders. In equity crowdfunding, the money collected is property of co-partnership, thus it can be used for all its purposes (also for e.g. salaries of the company members).

5.3.3 Remuneration for the crowdfunders

In the equity crowdfunding the remuneration for the investors are certainly shares or stocks. This sub-chapter focuses mostly on reward-based crowdfunding. Choice of the rewards is another crucial decision an entrepreneur has to make. The thing is not only to have interesting rewards, but also to match them with proper sums of support, because “if the reward is for too high amount, then it becomes unattractive” (originally: “jeżeli nagroda jest za zbyt wysoką kwotę, no to staje się nieciekawa”).

The question of remuneration has to be thought out carefully. This should be some form of an incentive for a crowd to support the project. Most often a reward is actually an object behind the crowdfunding project. In this case an entrepreneur needs to decide firstly what the price of a product or a service offered by him will be when the company enters the market. Then, price for the crowdfunders should be set. It should be lower than the market price, so that crowdfunders feel that they support the project and at the same time benefit from a better deal. A reward for a modest amount can be e.g. acknowledgement on a website of the company.

A limit on number of rewards of each type and for each level of support should be set, depending on the start-up's will and capability. The entrepreneur has to make sure that he will be able to deliver everything what was promised to the crowdfunders.

5.4 Decision regarding a platform

One of the primary decisions a person willing to use crowdfunding for his start-up has to make is the one regarding which platform to use. There are several Polish crowdfunding platforms: Siepomaga (charitable portal), Megatotal (where music bands can get money for recording their albums), PolakPotrafi and Beesfund. Considering the topic and objective of this thesis, only two latter ones will be taken into account in the further part of this paper.

As Beesfund is the first and so far the only platform in Poland (and in this part of Europe) enabling usage of equity as well as reward-based crowdfunding, all the start-ups willing to apply equity crowdfunding need to choose it. Reward-based crowdfunding is possible on both Beesfund and PolakPotrafi.

PolakPotrafi and Beesfund are two major platforms for reward-based crowdfunding in Poland, yet, each of them is based on different model. The comparison is presented in Table 3.

TABLE 3. Reward-based crowdfunding on major platforms in Poland

	Beesfund	PolakPotrafi
Model based on	Internet advance sale	Donations
Description of a model	Crowdfunder chooses a reward and supports financially the project. When the reward is ready, it is shipped to the crowdfunder along with the bill of sale.	Crowdfunder donates money to the project originator. The project originator donates some form of a reward to the crowdfunder.
Who can publish a project	Business entity	Every adult, organization, company, etc.
Application to a start-up	Business entity has to be registered before the project is published.	The company can be set up after successful fundraising.
Fee (taken only from the money raised in successful projects)	9%	8%
Time limit for the project	2–16 weeks	1–120 days
Subject to a tax	The project originator pays taxes for the products sold.	Each case dealt individually.

More information can be found on the platforms. It is the entrepreneur who needs to decide which one to use.

5.5 The process of publishing the crowdfunding project

Irrespectively to which platform is chosen by an entrepreneur, the process of publishing the information and starting the project looks basically the same. Firstly, the entrepreneur has to register as a user on the platform. Next, he has to submit a new project by filling a form containing questions regarding the initiative. When moderators accept the project, it is placed on the platform, but it is still invisible for crowdfunders. Then, the entrepreneur can administrate the project and, among other activities, edit description, pieces of information

about remuneration, time limit, add pictures and/or video(s). When the entrepreneur considers his project ready, he contacts moderators who check the project site and suggest some changes, if needed. Then they all agree on a start date of the project. Finally, the project is launched.

The entrepreneur can count on people running the platform if having any problems or doubts. The platform controls the project and communicates with the entrepreneur throughout the whole time. Also, the entrepreneur can and actually should communicate with crowdfunders on the platform. Moreover, at any time he has a possibility to check a status of the fundraising, get information about crowdfunders and rewards chosen by them. He can update information about the project, even add some rewards if needed (e.g. if one of them is extremely popular).

5.6 Marketing of the crowdfunding initiative

Without marketing any idea is just an idea and every entrepreneur should understand it. There are several issues related to marketing of crowdfunding initiatives which are very important for the success of a project. They are described in this sub-chapter.

5.6.1 Community

It is the crowd who provides money. All the crowdfunders create some kind of a community: "I think that the community of supporters is not strictly a community. Because there is no relationship of some sort, I think." (originally: "...mi się wydaje, że społeczność wspierających to nie jest tak stricte społeczność. Bo tam nie ma tej jakiejś relacji, tak mi się wydaje. "). Maybe crowdfunders do not talk with each other every day. Yet, they have interest in similar things and want the same venture to become successful.

Community existing before publication of the project

It is advisable and very effective to have some community already before publishing a crowdfunding idea on a platform. As a matter of fact "Any crowdfunding initiative should stem from the fact that you already have a

community.”(In original: “Każda inicjatywa crowdfundingowa powinna wynikać z tego, że już masz społeczność.”). It can be a group of friends of an entrepreneur, who understand and support the initiative. It can be a cluster of followers or subscribers of a website/blog run by an entrepreneur, where the idea has been described. It can be any group of “fans” who are associated with the initiative and an entrepreneur. Why is it so important? Because, when the project is launched, those people (at least some of them) are most probably the ones who support the project at first: “Because it is easier to persuade people who understand the project or know you, or are in the same community, etc.” (originally: “Bo łatwiej jest przekonać ludzi, którzy rozumieją projekt, albo cię znają, albo są tej samej społeczności itd.”). They know that the entrepreneur has abilities and knowledge needed to implement the project and they believe in its success.

Above arguments prove that it is worth to build a community earlier. An entrepreneur can e.g. write a blog, run a website, where he describes what he is planning to build, produce or provide. He can write about himself, his experience and motivations. Then, at the moment of starting the crowdfunding initiative, he will not be anonymous person and he will have bigger trust of the people. It also adds credibility to the project.

Creation of a community throughout the project

Even though some community already exists before publication of the project, it is not yet the final community of crowdfunders. This one is created throughout the whole time the project is being published on the platform. New people join supporters from the existing community all the time. One reason is that they see how many persons have already backed the project and feel secure to also back it: “Well, if others have done it, I'll do it too!” (originally: “No jak inni to zrobili, to ja też to zrobię!”). Another reason is of course that promotional actions attract new crowdfunders (this issue will be discussed later). What is important, the entrepreneur should actively participate in the creation of the community:

crowdfunding is very much Internet-based and yet advertising, creation of relationships, bonds or authentication require conversation. (in original: crowdfunding jest bardzo internetowy, a jednak i reklama

i tworzenie relacji, więzi, uwiarygodnienie się wymaga tego, żeby pogadać.)

If the process is carried out properly, the community does not disappear when the fundraising is finished, but still exists and is active: “This community stays and then they follow what is going on with the project” (originally: “Ta społeczność zostaje i oni potem śledzą co się dzieje z tym projektem”).

Creation of professional networks

Although, on one hand, crowdfunding is very much about creating personal networks, often it also helps in building professional ones. Some companies notice a big potential in the community focused around the project and in the project itself. They want to make use of it. Some provide support in exchange for e.g. mentioning them in a project description or media. Yet, some start to build professional relationships with the project originators. Thus, when starting the crowdfunding initiative, the entrepreneur should be ready for creating also professional “community” around his project.

5.6.2 Promotion of the project

This issue is crucial for the success of the initiative. Unfortunately, often project originators do not pay much attention to it. Entrepreneurs should not make this mistake.

Promotion on the platform

Some people think that if their project is published on the platform, it will be somehow financed on its own. Nothing is further from the truth. Of course a publication on the platform is some form of advertising for the project.

However, it is a two-way relation: “portal advertises projects and projects advertise portal” (originally: “portal reklamuje projekty a projekty reklamują portal”). Thus, the entire burden of promotion cannot be assigned to the platform only.

Certainly the platform is important to the promotion of the project. Any time the platform is promoted in some media, also projects published on it attract attention. Moreover, it is verified by the platforms that most of the supporters of one project also check sites of several other projects being published at the same time: "if someone advertises his project, he partly advertises also other projects and other projects advertise his one" (originally: "jeżeli ktoś reklamuje swój projekt, to reklamuje też po części inne projekty, no a inne projekty reklamują jego projekt"). Furthermore, platforms mark out some projects and place them on the main pages. The decision on which projects to promote depends on those running the platform. They favor especially those initiatives, the originators of which get actively involved in the promotion: "Because if somebody doesn't want to be actively involved, we are not going to promote him." (In original: "Bo jeśli ktoś nie chce się aktywnie włączyć, to my nie będziemy go promować.").

Promotion by the project originator

The activities of the project originator are decisive in the promotion of the project:

when talking to various project promoters on Kickstarter, the conclusion is that about 1% to maximum 2% of crowdfunders have been won from the people who had been on Kickstarter, who had glanced through it or, when being on Kickstarter and checking other projects, found that one and have paid. The remaining 98% is own work of the project originator. Facebook, media, acquaintanceship, meetings, some community work, etc. (Originally: rozmawia się z różnymi projektodawcami na Kickstarterze i wniosek jest taki, że około 1-2% maksymalnie wspierających zostało pozyskanych jako ludzie, którzy byli na Kickstarterze, sobie go przeglądali, albo gdzieś będąc na Kickstarterze, oglądając inne projekty, trafili na ten projekt i wpłacili. Pozostałe 98% to jest praca własna projektodawcy. Facebooki, media, znajomości, spotkania, jakieś tam prace społeczności itd.)

For this reason preparing a promotion plan well in advance will help the project originator in embracing such an important issue.

Promotional activities should be started in the group potentially most interested in the project, people who understand the idea, who are somehow associated with it. It has a very practical application as: if those people who should be willing to implement the project do not support it, most likely nobody

else will. However, if people interested in the topic back it, others will be encouraged to do the same. Entrepreneurs know their projects best, they also understand who should belong to the first audience.

Naturally, at some point the entrepreneur should start reaching as many people as possible. He can use buzz marketing, the idea behind which was explained in the part regarding benefits from using crowdfunding. The entrepreneur should consider contacting all his acquaintances, informing them about the project and asking for forwarding the message. He can also try to promote his project in various media, find creative ways to tell broader crowd about it. It does not need to be paid promotion:

the promotional plan does not need to assume that you have PLN50,000 and you will spend them on fliers, but some sensible activities you can do at no cost (in original: plan promocyjny nie musi zakładać, że masz 50 tysięcy i wydasz je na ulotki, tylko jakieś sensowne działania, które można robić bezkosztowo).

Meetings with potential crowdfunders could be a good idea. In spite of all, personal contact is an important tool: “yet, also in the real world crowdfunding needs to come into being, so the big projects could be successful” (originally: “crowdfunding jednak w świecie rzeczywistym też jak najbardziej musi zaistnieć, żeby się duże projekty udawały”).

It is not enough to implement promotional activities when the project is published and then just wait for the money to be collected. It does not work like this. Subsequent payments come once in a while. The entrepreneur needs to appeal to both, people who should be most interested in the idea and bulk audience, all the time. It is not easy and requires determination and motivation, yet it is valuable: “It is also difficult to heat the atmosphere up all the time, so there is always something going on, but it is just how it should be done”. (in original: “To też jest trudne, żeby cały czas podgrzewać atmosferę, żeby tam się cały czas coś działo, ale tak to trzeba zrobić po prostu.”)

5.6.3 Importance of the entrepreneur himself

When thinking about marketing for his project, the entrepreneur needs to remember one thing; he also needs to “sell” himself. Because, in the end, not

the idea, not the project are actually most important. It is the entrepreneur. He needs to be unique; he needs to bring some added value to the project. He is the one who will develop it and run the business. Thus, he has to prove to crowdfunders that he is the right person in the right place.

Some of the main reasons why crowdfunders support projects are: because the project originator has convinced them and because they trust him and his ability to fulfill promises. This perfectly shows the importance of providing proper picture of the entrepreneur. Because of this, the entrepreneur cannot hide behind the project, but has to present himself, his credibility and allow people to take their time to trust him: "Well, here the trust is very important." (Originally: "No, tutaj zaufanie jest bardzo ważne.")

5.7 After finishing the money collection

When the time limit for the crowdfunding initiative has passed, the project on the platform is stopped. If the financial target has been met, the money is transferred to the entrepreneur in a short period of time. If not, all the payments are returned to crowdfunders by the platform. All the crowdfunders receive e-mails with information about the success (failure) of the crowdfunding initiative. From this time on it is the entrepreneur's responsibility to fulfill his promises given to crowdfunders of the project successful in fundraising.

Some additional tools are used to improve the security and clarity of the process. Firstly, the system of the platform waits additionally several days to make sure that all, even late transfers, are delivered, so no one is disadvantaged. Moreover, platforms stay in touch with the project originators and control if they actually provide promised remuneration. Beesfund goes even a step ahead and keeps some part of the money collected until the bonuses are delivered to the crowdfunders. Information about the project stays on a platform even after the fundraising is finished, and is not deleted. This is designed to build transparency and trust of crowdfunders.

6 FURTHER CONSIDERATIONS CONCERNING CROWDFUNDING

Besides the process itself, there were some issues mentioned in the interviews, which could be interesting for an entrepreneur. They are presented in this chapter.

6.1 Projects not successful in raising money

Fact that a project has not been successful in raising money on a platform does not necessarily mean that it is bad. It may occur that some company will contact the entrepreneur and financially support the initiative. And even if not, the entrepreneur gets more than he thinks out of the unsuccessful project.

If some people had decided to back the idea, yet the financial target has not been reached, it means that something was wrong: “if the project has not succeeded, it is a very important sign for the originator that it might be worth to change something.” (originally: “jak się projekt nie uda, to jest bardzo ważny znak dla twórcy, że może coś warto zmienić.”). Maybe something needs to be added, removed or edited. The project has been a subject of public evaluation. The entrepreneur should check the comments people posted on the project site. Possibly something could be improved based on them. The failure of the project as it was is very important information for the originator and he should not surrender yet. He should improve the project and submit it once again, “one should not give up yet, it is too soon” (in original: “nie ma co się poddawać na tym etapie, to jest za wcześnie”).

6.2 Development of Polish crowdfunding platforms

6.2.1 Continuous development of Polish platforms

Although both major Polish crowdfunding platforms have entered the market quite recently, they do not intend to rest on their laurels. Each of them invests time and money to design solutions enabling development. This may create

new opportunities for entrepreneurs willing to use crowdfunding to raise funds for their start-ups.

PolakPotrafi is planning to introduce a special mechanism, thanks to which companies would be more willing to support initiatives: “how to create for them demand for supporting” (originally: “jak stworzyć dla nich zapotrzebowanie na wspieranie”). This could be e.g. that logo of a company supporting a project will be placed on the project site already during the time of collecting money. Thus, maybe more existing companies would be interested in backing projects created by start-ups. Beesfund, in turn, will be soon translated into four languages, starting from English. The translation is already ready, the legal solutions are prepared. Yet, those running Beesfund are still waiting for further development of the platform: “for the present we need to unwind it in Poland and only then we will start with the English version” (in original: “na razie musimy to rozkręcić w Polsce i dopiero wtedy ruszymy z wersją anglojęzyczną”). The usage of multiple languages may attract foreigners. In non-equity crowdfunding they could support and also create projects. Due to uncertainties regarding legal regulations in other countries, people from abroad could only back projects based on equity crowdfunding: “we want to attract small foreign capital to Polish start-ups” (originally: “chcemy do polskich start-upów przyciągnąć mały zagraniczny kapitał”).

There are just examples how the platforms are planning to develop. It occurs that crowdfunding is not that stiff and some novelties can be introduced:

Theoretically, it seems that crowdfunding...well that it is difficult to introduce anything there, but there are still many ideas there. (in original: Teoretycznie wydaje się, że crowdfunding...no trudno tam coś nowego wprowadzić, ale jednak jest dużo tych pomysłów.).

6.2.2 Kickstarter vs. Polish crowdfunding platforms

Contrary to opinion of many people, that development of crowdfunding is possible only by increased promotion of platforms, they are project originators who play the most important role in this process. Platforms are promoted because of attractive and interesting projects advertised by their originators. This is how Kickstarter became popular:

Everybody knows about Kickstarter because many projects have succeeded there. They have been implemented, but they have been implemented because their originators had promoted them. And only that is a basis of the fact that anybody knows about Kickstarter.
 (Originally: O Kickstarterze wszyscy wiedzą dlatego, że się tam udało dużo projektów. Zostały zrealizowane, ale zostały zrealizowane dlatego, że promowali je ich twórcy. I tylko to jest podstawą tego, że ktokolwiek wie o Kickstarterze.)

This should be understood by Polish entrepreneurs who complain that people leaving outside USA cannot publish projects on Kickstarter, and who perceive Polish crowdfunding platforms only as substitutes. Polish platforms have a full possibility of achieving success comparable to the one reached by Kickstarter. Project originators, who have already raised money on Polish crowdfunding platforms, are very satisfied with the process and its results: “we receive very positive feedback from people who succeeded.” (originally: “bardzo pozytywny feedback otrzymujemy od ludzi, którym się udało.”).

6.3 Long-term approach to crowdfunding

Polish crowdfunding, as it is now, is most likely not exactly what it will be in the future. Thus, there are some predictions made as well as some possible directions of changes indicated by the interviewees. They are presented in this part.

6.3.1 Legal concerns and considerations

As already mentioned, the Polish Crowdfunding Society aims at creation by Polish government an act regulating access to capital from Internet users. The discussions have already reached the ministerial level, yet, the legislative path will be rather long. Irrespective of this, it is important that there has been some movements around the legal regulations on crowdfunding in Poland. In USA there has been a great step taken (introduced in “CROWDFUND Act”), in order to make it easier for start-ups to gain untaxed capital from crowdfunding. However, there are suspicions that in Poland it will not go this way and rather towards full taxation of money raised in crowdfunding:

...this is really approach in totally different direction. It is known that in our country it is being sought to tax everything, so this will be their pursuit probably. (Originally: ...to jest naprawdę zupełnie podejście

w inną stronę. No i znów wiadomo, że u nas dąży się do tego, żeby to wszystko opodatkować, więc takie pewnie będzie ich dążenie.”)

Yet, they are only suspicions and it is too soon to judge anything.

An undoubted incentive for the development of crowdfunding in Poland would be some legal changes. An example may be, proposed by the Polish Crowdfunding Society, update and adaptation of the law regarding limited liability companies to conditions of the contemporary Polish market. Moreover, needed are some regulations protecting the crowdfunder like a kind of a customer, who has specified rights and can enforce them:

And you know, when you buy in a store, you click, but you have a number of provisions that protect you as a consumer. If they cheat you, you have a path how to claim your...your rights. If they send you a wrong product, you can return it, etc, etc. So you click and don't think about all this legal surrounding. (Originally: Ale wiesz, jak kupiłeś w sklepie, klikasz, ale masz szereg zapisów, które cię chronią jako konsumenta. Jak cię oszukają, to masz ścieżkę jak dochodzić swoich tam... swoich praw. Jak ci tam towar zły wysłał, to możesz go zwrócić itd itd. Czyli klikasz i nie myślisz o całej tej otoczce prawnej.)

Implementation of some regulations regarding this would facilitate backing of crowdfunding initiatives and thus might have impact on increased popularity of this form of financing:

complicated handling of portal also sieves some number of people, who might become interested, support the project, etc. (...) and when it is easier to support the projects, more people will support them. (in original: skomplikowana obsługa portalu też odsiewa ileś tam osób, które mogłyby się zainteresować, wesprzeć projekt itd. (...)) a jak będzie prościej wspierać te projekty, to więcej ludzi będzie je wspierało.).

It seems that development of crowdfunding in Poland does not depend only on creation of new platforms and success of many interesting projects, but also on legal changes and adjusting the solutions to the current and future Polish reality.

6.3.2 Standard of the project description

Currently, every person who starts a crowdfunding project has to provide only a limited amount of information, as already described in the last chapter. However, based on his experience, Karol Król would like to propose a specific

format for a project description for equity crowdfunding. This aims at creating bigger transparency, giving potential investors additional safety, but also at helping entrepreneurs to clarify their ideas: “authentically, people don’t ask themselves such basic, totally fundamental questions.” (in original: “autentycznie ludzie sobie nie zadają takich podstawowych, zupełnie fundamentalnych pytań”).

Such a standard would require the project originator to provide, besides the basic data as a description of the idea, also more advanced information. This would include for example: professional experience of the project originator (mainly to prove that he is able to actually run the business), primary sources of revenues and costs of the business venture, the structure of ownership after the crowdfunding action, the business model and some basic figures (but without financial forecasts) with good argumentation.

The description based on a standard would be presented in the same format for all the projects. This would prevent anyone from hiding some important information as well as enable a potential investor more easily choose a project to back. Every entrepreneur planning to use equity crowdfunding for his start-up and creating this kind of description would gain more focus on his company: “So forcing them to prepare such a model makes them themselves start to think about the business.” (in original: “Więc zmuszenie ich do przygotowania takiego modelu sprawia, że oni sami zaczynają myśleć o biznesie.”)

6.4 Sources of additional information

Presently, the amount of information about crowdfunding available for Polish start-ups is very limited. Yet, there are some sources which can provide a deeper insight into this topic and enable for updating the knowledge.

The Polish crowdfunding platforms, [Beesfund](#) and [PolakPotrafi](#), are very helpful in seeing practical perspective. An entrepreneur can learn a lot from current and finished projects. Each platform has its own blog where experiences with Polish crowdfunding are described. On its blog PolakPotrafi

publishes also interviews with some originators of the successful projects. Entrepreneurs may get some suggestions from there. They can also contact people who have already raised funds in crowdfunding and ask them for pieces of advice.

New pieces of information appear every couple of days on mentioned already Crowdfunding.pl. Crowdfunding.pl organizes also some trainings when it occurs that there is a group of people willing to participate in one. Most probably in November 2012 Karol Król and Arkadiusz Regiec will publish their book “Crowdfunding na papierze” (“Crowdfunding on paper”), funds for which have been raised on Beesfund. The Polish Crowdfunding Society plans to organize conference on crowdfunding at least twice a year. The nearest one will be held at the end of the year 2012 in Warsaw.

7 DISCUSSION AND CONCLUSIONS

The research aimed at understanding the situation of crowdfunding in Poland and the chances this option brings to Polish start-ups. The main research question was: “How could Polish start-ups utilize crowdfunding in the most effective way?” The subsequent research questions were:

1. What is crowdfunding?
2. Why should start-ups use crowdfunding?
3. What are the pros and cons of using crowdfunding over other options?
4. What does the process of using crowdfunding look like?
5. What are the key concerns when using crowdfunding? How could start-ups deal with them?

The main objective was to provide suggestions for Polish start-ups on effective utilization of crowdfunding.

Fortunately, answers to all the research questions have been found, whether in existing literature or in the empirical study. The concept of crowdfunding itself, although well explained in the literature review already, was also seen from the Polish perspective thanks to this study. The motivations for entrepreneurs to consider, choose and use this form of financing have been

provided and backed by suitable arguments. The process of using crowdfunding has been explained from an entrepreneur's point of view. There have been many issues related to crowdfunding addressed and some solutions for possible concerns proposed. Definitely, the main objective of the research was achieved as many suggestions for the effective usage of crowdfunding have been given to Polish start-ups. However, there is no chance to provide an easy formula for success. The entrepreneur needs to make many decisions on his own. Nonetheless, having presented what choices he will face and what practices hold good, he is suggested which directions to take.

7.1 Implications of the findings

Based in the findings, there can be some implications made for the three groups of people. They are presented in this part.

7.1.1 Entrepreneurs

A crowdfunding initiative does not start at the moment when an entrepreneur submits his project to a platform. It is a process that is started well before, ideally when the idea emerges. From that moment on, the entrepreneur needs to take into considerations numerous issues, and prepare himself and his idea for the awaited stage – fundraising.

The entrepreneur himself is a crucial element of the entire process. Only if he is engaged, the idea has actually chances for success. But it is not only about the engagement. It is also pretty much up to the entrepreneur's skills, attitude and the ability to convince others to his person and to his project. However, first of all the entrepreneur willing to use crowdfunding to raise money for his start-up should ask himself these very important questions:

- if he is ready to be put under public evaluation (as not only the idea will be assessed, but the originator also);
- if he will be ready and able to change something in his project if potential users state that it would be beneficial for the initiative.

This is a process of public assessment and the evaluators have some expectations. If the answer to both the questions is yes, the success of a crowdfunding initiative is definitely closer than before.

Crowdfunding is largely based on trust. It does not just appear, it needs to be built; especially considering the Polish mentality, the fact that Poles tend to be rather distrustful. A good way for the entrepreneur to build trust is to create some sort of community and present himself and his idea to them. It may be done in a form of e.g. a blog or a website where the entrepreneur describes himself, his interest in particular area, his opinions regarding some issues or even his idea. The people he gathers around this activity are a community. They see the expertise of the entrepreneur; believe in his motivation and engagement in the initiative. He is not anonymous for them, they trust him. The community should be built early enough before the crowdfunding project is started. In fact, most desirably crowdfunding initiative should be some kind of implication from having the community already.

There are many important steps the entrepreneur has to take. He needs to prepare proper description of the project, which is not only informative, but also attracts potential crowdfunders. The idea has to be presented clearly and precisely. Yet, the question of intellectual property rights has to be taken into consideration at this stage, and no information which could be potentially stolen should be disclosed. The entrepreneur should also already think what actions he will take to protect his intellectual property. The entrepreneur needs to decide whether to use equity or reward-based crowdfunding, or maybe even join both in a hybrid model. This influences, among others, choice of a platform which will be used and the type of the remuneration offered to potential crowdfunders. The Polish crowdfunding platforms that can be presently chosen by entrepreneurs are: PolakPotrafi (for reward-based crowdfunding) and Beesfund (for both equity and reward-based crowdfunding). In reward-based crowdfunding, each platform employs different model. It is a decision of the entrepreneur which model suits him, his project and his perception of the business world best.

All the Polish entrepreneurs who dream about publishing their ideas on Kickstarter should understand that also Polish crowdfunding platforms can achieve success comparable to Kickstarter. However, Polish project originators need to enable this. A platform is mainly promoted by the success of the projects published on it. Thus, triumph of every crowdfunding campaign performed by a start-up brings the platform closer to becoming a “Polish Kickstarter”. Moreover, entrepreneurs should understand that only using Polish crowdfunding platforms allows them to enter the Polish market and target Polish people. It is also easier for them to build community in Poland, and this is what the initiative needs to become successful. Moreover, people from Beesfund and PolakPotrafi have already experience in dealing with Polish reality and can provide great pieces of advice nobody from Kickstarter would probably give.

Two of the most important decisions the entrepreneur has to make are the ones on financial target and rewards offered to the crowdfunders. The entrepreneur should ask for relatively small amount of money, this means as little as actually required for implementing the project. Salary should be earned only if initiative is successful and start-up brings revenues. In designing the rewards, the entrepreneur should try to think from the point of view of a crowdfunder: what would attract him to give money for the project? The crowdfunders should feel appreciated and superior to clients of the company which will come when the start-up enters the market. Thus, a well-seen practice is to perform advance sell and offer crowdfunders the same product which will be brought to the market later, in special, more affordable price.

The entrepreneur is the one responsible for promotion of his project. The solution which seems to work best in the Polish reality is to first advertise the project to existing community and/or other identified community interested in the matter the project concerns. Then, the entrepreneur should start expanding the circle of informed persons and try to reach as many people as possible. The existing community adds credibility to the project, but also confirms the skills and ability of the entrepreneur to actually implement the project. If community is being taken care of throughout the project time, its

members are eager to spread the information about the initiative. Newcomers seeing engagement of the entrepreneur and involvement of current supporters are more prone to back the project. New community is being created.

Engagement of the entrepreneur needs to be sustained throughout the whole time, not only before or at the moment of publication of the idea. Promotional activities have to be performed repetitively until the time for collecting money passes. The entrepreneur really has to win the audience over during the campaign. Otherwise, his project will be rejected. Crowdfunders give money for some reasons. Sometimes it may seem that they are mostly interested in rewards. Maybe some of them actually are. But even they think before entrusting their money to somebody else. They evaluate trustworthiness of this person and assess his ability to fulfill what was promised. If they are not convinced, they pass. It is very important for the entrepreneur to evaluate amount of time he is able to devote for the crowdfunding initiative before he actually starts planning it. Raising money in crowdfunding seems to be very time-consuming task. Not everybody can afford to give it as much time as required. Saving on the time that could be devoted to the involvement in the initiative is most probably mistaken approach.

The entrepreneur should gather practical information on crowdfunding, browse projects on crowdfunding platforms, check blogs and websites of people who succeeded, contact them, ask and clarify doubts. Building a knowledge basis beforehand enables making better, well-thought-out decisions later. Yet, the entrepreneur should not be limited by the information collected. He needs to be creative. Interesting and innovative ideas are most attractive for crowdfunders.

Crowdfunding itself can be seen and planned as a part of marketing strategy of the company. The start-up gains attention (especially as this type of financing is still hot topic in Poland) even before the company has actually started its activities. Moreover, crowdfunding does not finish at the moment when money is collected. First of all, the entrepreneur has to fulfill all his promises. Hopefully, the community built before and during the fundraising process does not disappear. The crowdfunders are still there, checking what is

happening with the start-up. If treated well, they can actually become a life-long fans of the company. They can be a source of feedback for new initiatives. They can be potential customers for new products. Thus, it is advisable for the entrepreneur to invest time and put effort in maintaining this relationship.

7.1.2 Policy makers

Development of entrepreneurship is an important factor having impact on the economic condition of Poland. Thus, all the concepts which can influence increased activity in this regard should be perceived positively by Polish policy makers. Crowdfunding seems to be a perfect tool for filling the capital gap existing for ventures with demand for relatively small amount of capital. Thus, improving the legal environment, so it would be easier to apply this form of financing, could encourage entrepreneurship.

First of all, some clarifications should be made as soon as possible to explain that crowdfunding has nothing to do with public fundraising. Then media would stop publishing false information and more people would be aware of legality of crowdfunding. It would be easier to convince people to use crowdfunding if its legality was stated properly. Moreover, introduction of special regulations on capital collected from Internet users would enable platforms the development of one common operating model and would encourage entrepreneurs to use crowdfunding as a way of raising funds. The policy makers should also think about changing the law regarding a limited liability company, so it would have more practical applications and could be easily used in equity crowdfunding.

Policy makers in Poland should follow the development of crowdfunding and decisions made on it in more advanced in using this form of financing countries. In USA there have been facilitates introduced for start-ups willing to use crowdfunding in fundraising. In the author's opinion, this should be also a direction in Poland, if the policy makers want the development of Polish entrepreneurship.

7.1.3 Creators of crowdfunding platforms

The two platforms in Poland, although based on different models, seem to encounter the same issues with project originators. One of them is that many project originators believe in great role played by the platform in promotion of the project. It seems that it has not been stated clearly by the platforms that it is the entrepreneur who should take care of the promotional activities around his initiative. Thus, it would be advisable to post such information already in the description of the platform's rules or a tutorial on how to begin a project. Many project originators appear to have a wrong impression on e.g. reasons behind the Kickstarter's success and they may translate it on Polish reality. A clear explanation is the best solution.

There could be some form of cooperations between platforms established, aiming at creation sort of tutorial for an entrepreneur on how to go through the process, what issues should be considered beforehand, and what kinds of questions asked. It would save time and energy of those running the platforms, who would not need to explain this topics to every entrepreneur who is planning to start a crowdfunding initiative.

Polish crowdfunding platforms have more or less specified plans regarding their development. Making it more attractive for companies to support a project may result in increased number of bigger projects, as it could be easier to receive higher contributions. Having Polish crowdfunding platform translated into foreign languages may not only attract foreign capital, but also bring new possibilities to the Polish market. There could be e.g. some professional relationships built on international level. It would be also advisable for the Polish platforms to follow advancement of foreign crowdfunding platforms, but not only the big ones (like Kickstarter or IndieGoGo), also the smaller ones. New innovative ideas may come and speed up development of crowdfunding in Poland.

7.2 Connections between existing literature and empirical study

This paper contributes to the existing literature by presenting the Polish perspective on a topic of crowdfunding. Moreover, in the available literature the concept was described with respect to different projects, including those one-time only, which have not had continuation in the form of business ventures. The research, in turn, focuses entirely on start-ups and use they can make out of crowdfunding. Empirical study brings advanced understanding of legal considerations on crowdfunding, at least in terms of their Polish side. This contribution is valuable since it also adds to the knowledge of Poles considering crowdfunding as a way of raising funds for their start-ups, for whom the access to related literature is significantly limited at present.

Most of the issues mentioned in the literature review appears to be reflected in results of the empirical study. Advantages of crowdfunding seems to be the same everywhere and crowdfunding used for similar reasons. Moreover, trust and role played by the entrepreneur in building community are stated as very important in both types of sources. Both literature and empirical study find that target capital amount of the initiative should be relatively low.

There are some differences between the findings from empirical study and existing literature. Firstly, contrary to Lambert and Schwienbacher's (2010, 9) opinion, in Poland crowdfunding platforms are generally used and are the most convenient tool for start-ups willing to raise money from a crowd. Other forms are not so known by Polish entrepreneurs. The study provides an insight into advantages of platforms over other options and thus, it might be explanation of this state of affairs. Secondly, opinion of Larralde and Schwienbacher (2010, 17) that the project originator should reach as many people as possible, seems to work in Poland, but only at later stage of the promotional activities. It occurs that appealing firstly to the community associated with the initiative and understanding the idea behind it brings many benefits to the success of the project. Thus, this two-stage approach should be rather used in the Polish case. Moreover, Belleflamme et al. (2011, 7) state that, in reward-based crowdfunding, usually those who buy the product in

advance are willing to pay more for it than people purchasing it when the product is available on the market. In Poland it works the other way around. The product and the project itself are more attractive for crowdfunders if the price is lower for crowdfunder than for a “regular customer”. Lastly, although the existing literature names crowdfunding as an option for very innovative projects, in Poland it is rather advisable not to use crowdfunding for very innovative ideas which, if intellectual property rights are not protected properly, might be stolen.

The social lending is not analyzed too widely. It is seemingly not taken into consideration when talking about crowdfunding in Poland. Yet, it was mentioned in the literature as part of the concept. On the other hand, the empirical study introduces topic of professional networks which might be built through crowdfunding initiative, which has not been mentioned earlier.

7.3 Limitations and credibility of the research findings

This part is devoted to a discussion regarding the limitations of the research findings as well as their credibility. As already stated, all the research questions have been dealt with and the answers provided. Many of the questions have been answered very comprehensively. Yet, in some cases, like e.g. for the key concerns when using crowdfunding, it is difficult to assign particular pieces of information exactly to a question. The concept of crowdfunding is very comprehensive and all the issues are somehow related. Thus, to some extent the answers are overlapping.

In spite of how rich in information and deep in insight the data collected is, a limitation of this thesis is that a very small sample was used. Thus, the findings may be perceived as less credible by non-researchers. Moreover, there are, unfortunately, no answers provided by an actual entrepreneur, who has raised money for his start-up by using this option. Both the interviewees were entrepreneurs, yet at the moment of data collection none of them raised money for their businesses by means of crowdfunding. Thus, the point of view of the entrepreneur cannot be fully understood. On the other hand, all the results are based on the practical experience of two knowledgeable men who

have really been engaged in this form of financing for some time already. They have dealt with many cases so far and have verified their opinions. Thus, the expertise provided by them adds much credibility to the findings.

The data collected is very complex. Thus, data analysis was very difficult. Additionally, the author was the only person interpreting the findings. The interpretation of the results might be somehow affected by her mindset, knowledge and experience, especially since the author is part of the phenomenon. Yet, the author tried to focus on presenting state of the reality and what was actually said about it. Moreover, the design of the research allowed the author to be involved to a certain extent.

Another limitation is that the thesis is written in English, although it is prepared for Polish audience. Yet, the language for the thesis is imposed and independent of the author's will. The quotes from the interviews, though translated into English, are left also in Polish, for providing bigger credibility and understandability for Polish entrepreneurs. Not everything can be perfectly translated. Even the name of the fundraising option means something a bit different in Polish and in English. In Polish “crowdfunding” is “finansowanie społecznościowe”, where “społeczność” means community or society, not exactly “crowd”. Yet, much effort was put to provide as accurate translations as possible. However, the author is planning to translate her thesis in Polish at some moment in the future.

There has been a story built: a story of Polish entrepreneurs and their path from finding out about crowdfunding concept, making decision on using it, through the entire process until a potential success. Some sort of limitation may be seen in this, that the results allow plenty of choices for start-ups who will use crowdfunding, and do not provide readymade solutions. However, already the design of the research prevents the results from being too general, as they have been built on different stories and experiences. Thus, everything depends on the case in question. However, this implies that the results are applicable to many types of start-ups and at least all the entrepreneurs could read it and evaluate if crowdfunding is option for them.

7.4 Suggestions for future research

First of all, future research should engage a larger sample and especially involve entrepreneurs who have actually raised money for their start-ups through crowdfunding. They could provide their opinions of how they see the process in practice, what has been useful for them and what actions have been effective. Moreover, the questions of using equity and reward-based crowdfunding (with the main focus on the first one) could be addressed in the research and some suggestions on when to use each of them given.

Additionally, crowdfunding versus other financial options could be analyzed and some deeper insight into the topic acquired, so it would actually occur to be a “question for two-volume book”.

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APPENDICES

Appendix 1. Primary outline of an interview (English)

1. How do you see crowdfunding in Poland nowadays?
 - Do you think crowdfunding is still a rather new concept or is it becoming a regular form of financing?
2. Can crowdfunding be used both by not established yet as well as existing companies? What are the differences then?
3. What should a start-up company prepare when looking for a possibility to raise money through crowdfunding?
4. Is there any other form (besides Internet platform) of raising money through crowdfunding a Polish company can use?
5. Crowdfunding not-through-Internet – can you recall any initiative like this?
6. What are the advantages of using a special platform over other crowdfunding options?
7. In 2010 Lambert and Schwienbacher stated that platforms are rarely used for crowdfunding. Do you think it is also a case nowadays?
8. What are the platforms used in Poland?
9. What does this kind of website/platform work like?
10. How to publish information about crowdfunding initiative? What does the process of using crowdfunding look like?
11. Do you think, is it better to reach as many people as possible in the first place or rather consider something else over quantity?
12. What are the legal considerations when planning crowdfunding initiative in Poland?
 - What are the legal limitations?
13. What are the threats for investors/crowdfunders?
 - How can you prevent them?
14. What about the intellectual property rights? Have you seen cases of stealing ideas and similar?

- Is there any possibility to counteract this?
15. How can the money collected in crowdfunding be used? Are there any restrictions?
 16. Do entrepreneurs usually ask for money for the entire initiative or rather finance something by themselves and then ask for remaining funds? Why?
 17. What if there is too much money raised? What influence could it have on a start-up and its operations?
 - Are there only benefits of it?
 18. What are the advantages and disadvantages of crowdfunding in comparison with other methods (bank loan, venture capital, business angel, bootstrapping)?
 19. What are the advantages of using crowdfunding in terms of R&D/marketing/sales?
 20. Does every crowdfunding initiative entail creating sort of a community?
 - What advantages does it bring?
 21. What about the network created between investors? Do you think it can be seen as more personal than professional one?
 22. In your opinion, which remuneration scheme (equity/reward/donation) generates the most reliable information about potential demand for the object of the crowdfunding initiative?
 23. How, if at all, can you check if the money was actually used for the described purpose?
 24. Where can entrepreneurs look for additional pieces of information regarding crowdfunding? How can they update their knowledge?

Appendix 2. Primary outline of an interview (Polish)

1. Co może Pan(i) powiedzieć o crowdfundingu w Polsce obecnie?
 - Czy uważa Pan(i), że jest to raczej nowa koncepcja, czy też staje się to powoli regularną/normalną formą finansowania?
2. Czy crowdfunding może być w Polsce użyty zarówno przez dopiero powstające, jak i istniejące już firmy? Jakie są wówczas różnice?
3. Co powinien przygotować start-up, który zamierza zebrać pieniądze przy użyciu crowdfundingu?
4. Czy istnieje jakaś inna forma (poza platformami internetowymi) zbierania pieniędzy w crowdfundingu, której polska firma może użyć?
5. Crowdfunding-nie-przez-internet – czy przypomina sobie Pan(i) podobną inicjatywę?
6. Jakie są korzyści używania platformy crowdfundingowej w porównaniu z innymi opcjami crowdfundingu?
7. W 2010 Lambert i Schwienbacher stwierdzili, że platformy internetowe są rzadko używane w crowdfundingu. Czy uważa Pan(i), że sytuacja wygląda tak samo obecnie?
8. Jakie zna Pan(i) platformy używane w Polsce obecnie?
9. Jak taka strona/platforma funkcjonuje?
10. Jak opublikować informację o inicjatywie, która liczy na poparcie z crowdfundingu. Jak proces używania crowdfundingu wygląda?
11. Uważa Pan(i), że lepiej dotrzeć do jak największej liczby ludzi od samego początku, czy warto jednak skupić się na czymś innym niż ilości?
12. Jakie kwestie prawne należy rozważyć planując inicjatywę crowdfundingową w Polsce?
 - Jakie są prawne ograniczenia?
13. Jakie są zagrożenia/niebezpieczeństwa dla inwestorów/kapitałodawców w crowdfundingu?
 - Jak można im zapobiec?
14. Co z prawami własności intelektualnej? Czy spotkał(a) się Pan(i) z przypadkami kradzieży pomysłów itp.?

- Jest jakaś możliwość żeby temu przeciwdziałać?
15. Jak/ na jakie cele mogą być użyte pieniądze zbierane w crowdfundingu? Czy są jakieś ograniczenia w tej kwestii?
 16. Czy pomysłodawcy proszą zazwyczaj o pieniądze na całe przedsięwzięcie, czy raczej finansują część sami a crowdfundingu używają do zebrania brakującej kwoty? Dlaczego?
 17. Co, jeśli za dużo pieniędzy jest zebranych? Jaki wpływ może to mieć na start-up i jego operacje?
 - Czy taka sytuacja ma tylko korzyści?
 18. Jakie są wady i zalety crowdfundingu w porównaniu z innymi dostępnymi metodami (kredyt, venture capital, anioł biznesu, bootstrapping)?
 19. Jakie korzyści daje crowdfunding w kontekście R&D (badań i rozwoju)/ marketingu/ sprzedaży?
 20. Czy każda inicjatywa crowdfundingowa pociąga za sobą stworzenie swego rodzaju społeczności?
 - Jakie są z tego tytułu korzyści?
 21. Co z siecią (network), która powstaje pomiędzy inwestorami? Czy uważa Pan(i), że może być ona postrzegana bardziej jako osobista niż zawodowa/profesjonalna?
 22. W Pana(i) opinii która z form wynagradzania inwestorów (udziały, nagroda, brak=dotacja) generuje najbardziej wiarygodną informację o potencjalnym popycie na przedmiot inicjatywy crowdfundingowej/projektu?
 23. Jak, jeśli w ogóle, można sprawdzić czy zebrane pieniądze zostały rzeczywiście przeznaczone na opisany cel?
 24. Gdzie start-upy mogą szukać dodatkowych informacji na temat crowdfundingu? Jak mogą zaktualizować swoją wiedzę?

Appendix 3. List of major nodes

Nodes

	Name	Sources	References
-	Overview of crowdfunding in Poland	0	0
	Polish mentality	2	6
	development of crowdfunding currently	3	9
	people looking for financing	2	3
	access to finances in Poland	3	3
	not regular form	1	3
+	legality of crowdfunding	4	9
	features of crowdfunding in Poland	2	9
	general considerations on crowdfunding	1	3
	Polish Crowdfunding Society	2	3
-	Decision regarding use of crowdfunding	0	0
+	applicability of crowdfunding to a particular project	3	12
+	Advantages of using crowdfunding	4	28
+	Crowdfunding vs. other methods	4	22
-	The process of using crowdfunding	0	0
+	Things to be prepared and considered when planning crowdfunding initiati	4	48
+	Other forms of crowdfunding	2	8
+	The process of publishing the project	2	15
+	after finishing the money collection	3	20
+	equity crowdfunding	2	13
-	Marketing	4	61
+	Promotion of a project	4	29
+	Community	4	30
+	importance of entrepreneur	1	2
+	Decision regarding choice of a platform	4	29
-	Additional considerations	0	0
+	development of platforms	3	6
	project unsuccessful in raising money	2	6
	Sources of additional information for start-ups	2	12
+	long-term approach to crowdfunding	3	21