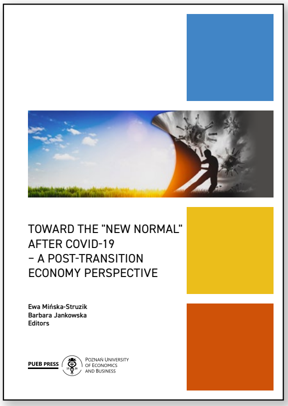

TOWARD THE "NEW NORMAL" AFTER COVID-19 – A POST-TRANSITION ECONOMY PERSPECTIVE

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6. Donation crowdfunding as a source of relief for small businesses

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Abstract

Purpose: The purpose of this chapter is to examine advantages and limitations of donation crowdfunding as a way of providing relief for small businesses and assessing its potential development in that field in the post-pandemic future.

Design/methodology/approach: The chapter is based on critical literature analysis, supported by empirical examples for illustrative purposes.

Findings: Donation crowdfunding can be a viable way of providing relief to small companies during the times of crisis, by positioning companies as beneficiaries of charitable endeavors carried out by consumers.

Practical implications: Companies ability to trigger altruistic responses in their consumers is an important information in times of crises. Moreover, the information serves as an additional argument for building meaningful relationships with consumers and establishing locally embedded or virtual communities, which make securing relief through donation crowdfunding easier.

Originality and value: The subject of using donation crowdfunding by companies to secure relief funds has seen very limited elaboration in the current literature.

Keywords: crowdfunding, Covid-19, small businesses, relief.

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6.1. Introduction

The economic crisis brought about by the Covid-19 pandemic has found companies in some sectors struggling to survive – particularly in those countries that did not successfully contain its spread. The pandemic can be especially dangerous to small companies, with little to no financial reserves, and thus vulnerable in crisis situations (Spiers, 2017). With many governments unable to fully neutralize the effects of the pandemic, some small businesses turned to consumers for help, organizing crowdfunding fundraisers. While some of those attempts utilized the reward-based models of crowdfunding, in which participation provides backers with a tangible gain, many businesses relied on the donation model instead, meaning that they effectively positioned themselves as entities in need and asked consumers to engage in charity on their behalf. This phenomenon constitutes a shift in the usual behavior of consumers participating in crowdfunding, whose support for companies was usually at least partially motivated by selfish desire to gain access to improved offerings on a given market (through securing additional rewards or helping companies to innovate). The more altruistic donation-based model of crowdfunding, in which backers are not rewarded with tangible rewards, has usually been reserved for helping individuals facing emergencies (e.g. health problems or effects of natural disasters), effectively serving as a way of engaging in charity. However, the above cases of crowdfunding during the Covid-19 pandemic demonstrate that – in certain situations – consumers are willing to display an altruistic/charitable attitude toward companies as well.

The purpose of this chapter is to examine the conditions that allow companies to become beneficiaries of altruistic fundraisers carried out through crowdfunding donations, along with identifying the potential of this type of crowdfunding to provide relief to small business.

6.2. Crowdfunding nature and types

Crowdfunding can be defined as a specialized form of crowdsourcing. Whereas the latter is a process of obtaining resources from a crowd (in a marketing context – a consumer crowd), usually by creating an open appeal and asking the crowd to share their ideas, knowledge and feedback (Howe, 2006), the former pertains only to cases where those crowds are utilized to secure resources of financial nature (Belleflamme, Lambert, & Schwienbacher, 2014). Other authors further elaborate on this definition, stating that crowdfunding aims to secure small to medium-size investments/donations, usually motivated by a promise of a reward – financial or intangible – e.g. status, social esteem, or identification (Ordanini, Miceli, Pizzetti, &

Parasuraman, 2011), and that the reward received by the donor (if any) is usually worth less than the value of the donation itself (Iwankiewicz-Rak & Mróz-Gorgoń, 2018).

Of course, the idea of collecting small donations from a larger group of otherwise unrelated people is not completely new and has its precedents in various forms of social cooperation (Ordanini et al., 2011). However, what differentiates crowdfunding fundraisers is their strong embeddedness within a context of a digital platform and reliance on their interfaces and cultures build around them. These platforms can largely determine what kind of entities are allowed to participate in fundraising and the character of relationships among them. Therefore, depending on the platform, crowdfunding can be utilized, i.a, by businesses to find investors for their innovations (Indiegogo), artists in search of patrons (Patreon), or people faced with all kinds of emergencies, in search of aid (GoFundMe).

This multitude of different goals and applications of crowdfunding has led scholars to try to organize them by creating typologies and classifications. For instance, Pierrakis and Collins (2012) distinguish between donation crowdfunding (in which backers are rewarded only with intangible benefits), reward crowdfunding (motivated by rewards and intangible benefits), crowdfunded lending (motivated by interests from the loan), and equity crowdfunding (motivated by return on investment). Dziuba (2012) proposes a similar typology but considers non-rewards (donations) and rewards-based models to be subcategories of the same type of crowdfunding, and he introduces the mixed solutions type which combines traits of other forms. Some scholars begin with dividing crowdfunding into two main categories – community crowdfunding and financial returns crowdfunding (Adhikary, Kutsuna, & Hoda, 2018) – and then introduce the more specific sub-categories. Other authors believe that those types in which backers aim to secure interest or return on investment should not be classified as crowdfunding and belong instead to a separate category of crowdinvesting (Profatilov, Bykova, & Olkhovskaya, 2014).

In this chapter, while no side will be taken on the above issue, the focus will be placed on the donation/non-rewards crowdfunding, whose application by companies has not been properly investigated yet.

6.3. Potential of donation crowdfunding for relieving small companies

6.3.1. Companies as beneficiaries of charity

As stated above, crowdfunding has been utilized in organizing charity fundraisers aimed at helping individuals faced with emergencies, e.g. requiring medical operation or losing means to live due to various disasters. Crowdfunding has also found use in the business sector, where companies use it to secure funds required to develop and introduce to the market innovative products and services. However, the Covid-19 pandemic has made a large impact on the crowdfunding landscape: not only has the donation type seen a massive spike in the number of campaigns – for instance, on GoFundMe platform it rose by 60% in March (Elmer, Ward-Kimola, & Burton, 2020) – but also a combination of the two types mentioned above gained relevance: non-reward crowdfunding aimed at helping businesses rather than individuals. While this form of crowdfunding is not completely unprecedented, only recently did it see widespread use, with many small businesses turning to crowdfunding for pandemic-related relief, once the efforts of governments in that regard proved insufficient. Some non-reward crowdfunding sites like GoFundMe even introduced tabs and categories dedicated to small businesses affected by the pandemic. This has led to a noticeable spike in the number of fundraisers for small business campaigns on this platform (Saleh, Lehmann & Medford, 2021), which amounted to 15,6% of all Covid-19-related fundraisers in the timeframe of 27th March to 27th April (Elmer et al., 2020).

The utilization of non-rewards crowdfunding model to help companies is interesting because it carries the implication that the consumers are not only willing to invest in a company and its products, but under certain circumstances, they can also display truly altruistic attitudes toward businesses. In other words, backers are willing to engage in charity by providing help to those in need ("Charity," n.d.), even when those in need are companies rather than individuals or NGOs.

However, intuitively speaking, one would expect that backers would not necessarily be willing to extend the same generosity they display toward fellow citizens requiring help, who are easy to empathize with, toward organizations, which themselves are strictly profit-oriented and cannot suffer per se (due to being merely a legal entity), thus being much harder to identify and empathize with. It is therefore important to consider under what conditions it is possible for companies to overcome these obstacles and become a viable target for charitable or otherwise altruistic actions from the side of consumers.

The shared trait connecting many different companies that have successfully used crowdfunding in order to achieve some relief funds during the pandemic and which seems to be a major success factor is the existence of a network of strong, long-term relationships connecting a business with its customers. For instance, City Lights Books, an independent bookstore in San Francisco that managed to raise over 500 thousand dollars, also boasts an impressive following on its multiple social media channels, with over 50 thousand followers on Facebook, 130 thousand followers on Twitter and just shy of 40 thousand on Instagram. While some authors stress that crowdfunding initiatives are of open and global character and, therefore, individuals participating in a particular fundraiser should not be perceived as a community (Kozioł-Nadolna, 2015), companies can certainly benefit from the existence of relationship network with their consumers – be it a virtual community (Kozinets, 1999) or a more traditional, spatially-defined one, resulting from company's embeddedness in a local environment – which fits better into the definition of tribes (as conceptualized by Maffesoli, 1996) rather than communities.

This can be explained by the fact that the first phase of crowdfunding process (as described by Ordanini et al., 2011) usually involves backers that have already been part of a relationship network built around the entity organizing the fundraiser. The funds secured in this phase (referred to as friendfunding) can secure up to half of the total amount asked by the company. Moreover, the second phase (i.e. getting the crowd phase) – defined by involving people from outside of the personal network of the fundraising entity – relies largely on the cascading effect resulting from the first phase, with new backers being reached through means like word-of-mouth. While bigger companies could perhaps invest in paid advertisement in social media in order to reach a larger crowd of backers, smaller ones have strong ties with their customers who can be crucial for achieving greater visibility and, thus, securing new backers in an organic (and cost-free) way. Once the second phase is finished (by reaching the so-called engagement moment), the remaining funds are usually gathered quickly, since those who previously considered backing the fundraiser feel encouraged by its success and do not want to be excluded (Ordanini et al., 2011).

There is also another benefit to having a dedicated customer community or a tribe. While it is harder for a company to evoke empathy, an existence of long-term relationships between the business and its customers can help bypassing this problem. As some note, it is possible for customers to form genuine attachment toward companies or brands and perceive them as friends of sorts, once the brand becomes humanized (Fournier, 1998). While consumers might not care if a generic company experiences financial troubles and would rather support individual people in need, an entirely different matter are companies that gain consumer attachment and that become important to their individual and collective identities or social lives. Moreover, particularly in the case of locally embedded businesses, customers can also form personal relationships with their employees and owners, at which point any sort of help through crowdfunding fundraiser or otherwise does not have to be perceived as helping a company but rather supporting familiar individuals. That was the case for Shintaro Higashi, an owner of the oldest judo school in New York who also runs his personal Youtube channel. Him being a reasonably known person as well as having a business ingrained within a local history allowed him to raise over 70 thousand dollars.

Considering all the above, it is possible for companies to become recipients of charitable actions performed by the consumers. Therefore, in situations like the Covid-19 pandemic, in which the continuous existence of companies comes under threat to the point that they can be "in need," we may expect that at least some companies will find success by utilizing crowdfunding fundraisers, even if they do not offer their backers anything in return.

6.3.2. Crowdfunding advantages and limitations

Crowdfunding as a way of securing additional funds by small companies in emergency situations like the Covid-19 pandemic boasts major advantages. Most importantly, it can provide an influx of free capital to the company, which – when utilizing the donation model – does not place any sort of obligation on the entity organizing the fundraiser.

Crowdfunding can also foster the development of a community or tribe around the company and its brand. Relationships are built, among other things, based on reciprocity and interdependence (Fournier, 1998). Consumers' voluntary participation in a fundraiser helps elevate the relationships between them and the company beyond just a mere business arrangement between a buyer and a seller. An example of this can be found in the case of Mercury Café, whose fundraiser page has been filled with supportive comments from backers sharing their fond memories of the place on the one hand, and with personalized thanks from the owners on the other.

Moreover, the utilization of crowdfunding platforms provides companies with technological infrastructure that fosters not only community-building but also serves as a basis for crowdsourcing (Ordanini et al., 2011). By gathering the most loyal consumers in one virtual space, companies can ask for their insights, ideas, and knowledge, which could potentially also prove useful during a crisis situation.

That being said, there are clear limitations to the utilization of crowdfunding as a way of providing relief to small companies. Its reliance on communities or tribes built around the company understandably favors businesses from some sectors over others. For instance, while a local café might not experience any troubles in creating a tribe of dedicated consumers by becoming a vital part of social life for the inhabitants of a local district, the same status might be much harder to achieve for a hardware store or a small law firm. While it is not completely impossible for such companies to build meaningful relationships with their consumers, it requires a much more conscious effort, whereas in the former's case it could even happen organically as a mere side effect of the business being present in the neighborhood. This stems from the fact that building networks of strong relationships with customers requires them to place special emphasis on the particular type of consumption allowed by the company as part of a celebration, ritual, or tradition (Muniz & O'Guinn, 2001). While some goods fall into that category almost automatically, others rarely do, even when significant efforts have been made by the company.

Another limitation stems from the fact of crowdfunding's reliance on consumers rather than the state. Whereas the state can operate on a negative budget for a long time and, thus, can increase its indebtedness in order to provide relief for businesses – customers cannot. Therefore, in situations of nationwide or even global crises, their capability to help companies can diminish or even cease to exist because customers' own incomes suffer.

Last but not least, it is worth noting that by acquainting consumers with the idea of utilizing donation crowdfunding to help companies threatened by the pandemic-related crisis, this solution could potentially become a substantial source of relief for companies affected by other, more specific factors as well. It seems unlikely, however, that such an application will become truly widespread; during a global crisis the peril that small businesses find themselves in is self-explanatory, which makes it easier to convince consumers to lend their hand. In cases when it is not possible for a company to provide an easy to grasp reason for requiring outside help, around which a compelling narrative can be built, it can be difficult to convince customers that financial troubles are not simply the result of mismanagement or general incompetence.

6.4. Conclusions

Taking all the above into consideration, we may say that crowdfunding can be a viable way of providing relief to small companies during the times of crisis. While originally companies utilized it mostly as a source of low-cost investment from consumers, allowing them to develop new products and services, and charitable fundraisers were reserved mostly for the individuals, the extraordinary circumstances of the Covid-19 pandemic helped combine the two by establishing companies as beneficiaries of charitable endeavors carried out by consumers.

However, it is unlikely that crowdfunding could become the main way in which companies are sustained during crises due to its reliance on consumer community or tribe being developed around the company, which is difficult to achieve in the more mundane and non-engaging sectors.

Looking beyond the Covid-19 pandemic, it is also possible for donation crowdfunding to be utilized as a way of relieving companies that were affected by more specific circumstances. The exploration of this approach in a different context could be an interesting topic for further research.

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CONTENTS

Foreword (*Ewa Mińska-Struzik, Barbara Jankowska*) https://doi.org/10.18559/978-83-8211-061-6/0

Part I
CHALLENGES AT THE SUPRANATIONAL AND NATIONAL LEVEL

1. The economy battling Covid-19. A macroeconomic approach (*Tadeusz Kowalski*) https://doi.org/10.18559/978-83-8211-061-6/I1
2. How Covid-19 impacted the European integration processes? The case of EU Cohesion Policy and budget (*Ida Musiałkowska, Piotr Idczak*) https://doi.org/10.18559/978-83-8211-061-6/I2
3. The European Union's Common Commercial Policy and the Covid-19 pandemic: reactions and challenges (*Grzegorz Mazur*) https://doi.org/10.18559/978-83-8211-061-6/I3
4. The future of the European Migration and Asylum Policy (*Judyta Cabańska*) https://doi.org/10.18559/978-83-8211-061-6/I4
5. Central Bank policy toward the Covid-19 pandemic: Seeking patterns among the most powerful central banks (*Anna Matysek-Jędrych, Katarzyna Mroczek-Dąbrowska*) https://doi.org/10.18559/978-83-8211-061-6/I5
6. International portfolio diversification during the Covid-19 onset: A study of correlations among CEE post-transition and developed countries (*Paweł Śliwiński*) https://doi.org/10.18559/978-83-8211-061-6/I6
7. Foreign direct investment and the Covid-19 pandemic: the real economy perspective and theoretical implications (*Marian Gorynia, Piotr Trąpczyński*) https://doi.org/10.18559/978-83-8211-061-6/I7
8. The impact of Covid-19 on the finances of multinational enterprises from the perspective of Balance of Payments transactions (*Monika Andrzejczak*) https://doi.org/10.18559/978-83-8211-061-6/I8

Part II
CHALLENGES FOR BUSINESS SECTORS AND INDUSTRIES

1. Internal substitution in the tourism market: Effects of the Covid-19 pandemic (*Agnieszka Niezgoda, Ewa Markiewicz, Klaudyna Kowalska*) https://doi.org/10.18559/978-83-8211-061-6/II1
2. Effects of the Covid-19 pandemic on sport, video game, and tourism industry: Sentiment analysis of press, Internet articles and Twitter data (*Łukasz Bryl, Justyna Majewska, Szymon Truskolaski*) https://doi.org/10.18559/978-83-8211-061-6/II2
3. Goods road transport sector facing pandemic crisis (*Piotr Banaszyk, Sylwia Konecka, Anna Maryniak*) https://doi.org/10.18559/978-83-8211-061-6/II3
4. The Polish logistics real estate market as a link in international supply chains during the Covid-19 crisis (*Waldemar Budner*) https://doi.org/10.18559/978-83-8211-061-6/II4
5. Covid-19 disruption of European agri-food markets: The case of Poland (*Magdalena Śliwińska, Rafał Śliwiński*) https://doi.org/10.18559/978-83-8211-061-6/II5

6. Consumer acceptance of AR technology in e-commerce in the light of the Covid-19 pandemic: A conceptual perspective (*Małgorzata Bartosik-Purgat, Tomasz Grzegorczyk, Wiktoria Rakowska*) https://doi.org/10.18559/978-83-8211-061-6/II6
7. Challenges for innovation co-operation in the biopharmaceutical industry during the Covid-19 pandemic (*Łukasz Puślecki*) https://doi.org/10.18559/978-83-8211-061-6/II7

Part III
CHALLENGES FOR COMPANIES

1. The adoption of Industry 4.0 solutions as a remedy against the pandemic crisis–the case of Polish companies (*Barbara Jankowska, Ewa Mińska-Struzik*) https://doi.org/10.18559/978-83-8211-061-6/III1
2. Future competences in times of an economic crisis (*Anna Łupicka*) https://doi.org/10.18559/978-83-8211-061-6/III2
3. The impact of the crisis on the maintenance of sustainable development initiatives: A comparative analysis of local and international companies (*Łukasz Małys*) https://doi.org/10.18559/978-83-8211-061-6/III3
4. Women's entrepreneurship in the Covid-19 pandemic (*Alicja Hadryś*) https://doi.org/10.18559/978-83-8211-061-6/III4
5. Challenges in currency derivatives management in the OTC market in Poland during the Covid-19 pandemic (*Piotr Wybieralski*) https://doi.org/10.18559/978-83-8211-061-6/III5
6. Donation crowdfunding as a source of relief for small businesses (*Marcin Wieczerzycki*) https://doi.org/10.18559/978-83-8211-061-6/III6