
RETHINKING THE IMPACT OF CROWDFUNDERS ON ECONOMIC SUCCESS OF COMPANIES

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Abstract

This article focusses on the possible impact crowdfunders might have on the economic success of a company. A literature review is used to outline the approach, while further research questions for empirical evaluation are presented. Before turning to the potential influence of the crowdfunders, the question of the motivation of stakeholders to become crowdfunders, in other words, their fulfillment of needs through crowdfunding as a starting point of the inclusion of the crowdfunder into the ecosystem of the company is discussed. Maslow's hierarchy of needs is therefore adapted to a stakeholder and, in the next step, crowdfunder approach. Proposing a model of the direct and indirect influence crowdfunders might have, the adapted approaches are integrated in Bruhn's model of economic success of the company. The results can be used to remodel marketing and crowdfunding approaches as well as to develop a better understanding of the importance of this stakeholder group for the business.

Keywords

crowdfunding, crowdfunder, impact, economic success, hierarchy of needs, stakeholders

JEL Classification

D21, G20, G32, L26, M10, M39

Introduction

Besides numerous financing options for a firm (i.e. bank loans, venture capital, regional or national subsidies), crowdfunding is a way to raise money for a company throughout its lifecycle (Lewis and Churchill, 1983). In this paper it should be discussed which needs of a stakeholder are to be met to convert him into a crowdfunder and what the economic benefits of a company are directly and indirectly implicated by having crowdfunders engaged. The literature shows crowdfunding as a way to finance (Kumar et al., 2019) as well as to market (Demiray et al., 2019) firms, products and services, but not much research has been done on the impact of the crowdfunder on the economic success of a company. Moreover, besides

studies about the motivation of crowdfunders and investors (Lin et al., 2014) to engage in a company a generally applicable model of needs for stakeholders and crowdfunders seems to be missing.

The article tries to propose a model, which can be applied in practice for better understanding the crowdfunders needs and their influence. Decision makers are then able to argue in favor of doing a crowdfunding campaign and can, in the aftermath of a campaign, realize synergies with the crowdfunders in a better way. The article is primarily based on literature research and identifies ways to provide empirical studies on both models proposed. After a general introduction about crowdfunding and the correlation of employee as well as customer satisfaction the adaptation of the hierarchy of needs to stakeholders and crowdfunders will be discussed. In the context rendered out in this paper three commercial stakeholder groups are identified: the customers, the employees and the crowdfunders. A model for the indirect and direct impact of crowdfunders on the economic success is drafted. A critical reflection as well as practical implications mark the end of the article.

Crowdfunding, impact, employees and customers

Considered being a subcategory of crowdsourcing and introduced by Howe (2006), crowdfunding can be split up in four different categories, namely: donation-, lending-, reward- and equity-based crowdfunding. The basic principle, a crowd of people (many single “crowdfunders”) giving money for a project or venture, is the same for all four, but the types of interaction and transaction vary from category to category (Meyskens and Bird, 2015; Gierczak et al., 2016).

The focus of this article will be set on companies using crowdfunding. Therefore, the following discussion considers the two main crowdfunding categories used by businesses, reward-based crowdfunding as well as equity-based crowdfunding. The main reason for organizations to use crowdfunding is raising funds. It is discussed, if companies use crowdfunding primarily after unsuccessful attempts to raise money from banks, venture capitalists and business angels (Dresner, 2014; Hagedorn and Pinkwart, 2016). This would lead to the conclusion that crowdfunding is primarily used by companies not considered having a high credit standing (Kuti and Madarász, 2014). Companies also use crowdfunding for marketing purposes (Brown et al., 2017). One reason for a reward-based crowdfunding campaign can be preselling, while the product or service is not finalized or produced (Loane et al., 2016). The main idea of equity-based campaigns is to attract the right people to drive the company forward (Leapfunder, 2020). Another reason to do this kind of campaign is to raise brand awareness among stakeholders, primarily among customers and suppliers. The approach of a business raising capital via crowdfunding is often picked up by industry magazines (Moebelkultur, 2018) or local newspapers (Tagkalidou, 2016). Thus, the information about the campaign is reaching an audience new to the business or entrepreneurship. The campaign owners, primarily the managers of the company, have the responsibility to be authentic and act transparent, so the interested, potential crowdfunders can connect on an emotional as well as on a cognitive level. This is a similarity to influencer marketing, where also the authenticity of an influencer is in direct correlation with the success of her of his endeavours (Audrezet et al., 2018).

As Bruhn (2016) pointed out there is a direct relationship between the employee satisfaction and the economic success of a company. In consequence the better organized and internally engaging a crowdfunding campaign is set up the higher the satisfaction of the employees will be. The success of the crowdfunding campaign can be set as a common goal to reach together, which is not driven alone by the management, but by the whole team (Feldmann et al., 2014). If not the work for the crowdfunding campaign is in the staff’s center of interest, but the joint journey to success the satisfaction will rise and so the economic success of the company as well.

The satisfaction of the customer with the company and especially with the products or services offered is directly connected with the economic success of the company (Stauss and Neuhaus, 1997; Hennig-Thurau, 2004; Bruhn, 2016). The more satisfied a customer is the more often she/he will buy products or consume services of the company because of a higher loyalty, the lower the price elasticity of demand and the higher the probability of recommendation and of the realization of up- or cross-selling potentials will be (Zahorik and Rust, 1993). If a product or service meets or exceeds the expectations a customer has towards it, the satisfaction will rise. The trust towards the brand or the company will also increase. An existing customer getting an information about a crowdfunding campaign of a company can be turned into a crowdfunder or a person spreading the information about the campaign, if the past experience with the company is satisfying and the authenticity of the campaign and its goals seem valid. The stakeholder, who become a crowdfunder later, wants to fulfill needs by engaging with the company.

Maslow for Stakeholders

Maslow's (1943) hierarchy of needs is a basic model to understand the motivation of human beings to develop and fulfill their needs by material and immaterial means. Stakeholders in the business environment are rationally acting beings or organizations, trying to maximize their own benefit (Dinter and Winter, 2008).

Physiological needs can be found at the basic level of the hierarchy. Adapting these needs to those of a stakeholder, namely one which is in touch with an organization, would mean that basic needs could include the registration of the company, a given structure, brand of activity and liquidity to do business. Without these basic requirements, without the fundamental goal of creating and maximizing profit, a company or individual cannot do business and cannot act as a stakeholder to a company (McLeod, 2007).

On the second level of the hierarchy the safety needs can be found. Transferred to a stakeholder the safety needs can be found in a solid internal financing structure as well as stable, formal contractual relationships with other businesses (Kunc, 1992). The financing on the one hand and the contracts on the other hand can form the foundation for a successful company, building upon the basic needs discussed on the first level of the stakeholder's hierarchy of needs.

The third stage of Maslow's (1943) hierarchy is constituted from social desires/belongings. For a stakeholder this means having a vivid, suitable and authentic internal company culture as well as a pleasant intercompany relationship (B2B relationship). Such connections are not built upon contracts only, but also refers to human interactions and a level of common goals and values, which are discussed and shared. Therefore, this level is an alignment of common views on business subjects on medium term, which is often directly connected to human-to-human interactions (McLeod, 2007).

Self-esteem in Maslow's hierarchy of needs is seen as the realization of ego or status needs. Adapted to the stakeholder the status needs can be internal guidelines, a clear vision or the materialization in the form of artefacts (Kasper and Mayrhofer, 2009, pp. 322-327). In the relationship with other businesses the stakeholder aims for a deeper interpersonal connection (friendship) with the responsible counterparts as well as for long-term business development perspectives. These could include milestones for joint growth, long-term contracts or projections on the future work on the market.

The final and highest level according to the hierarchy of needs is self-actualization. Concerning a stakeholder this level includes on an internal level the creation of spin-off businesses or the institutionalization of intrapreneurship (Hisrich, 1990). From an external angle mergers and acquisitions along with investing, managing and/or becoming the shareholder of another company might be part of the highest level of needs. This is also in accordance to the lifecycle a company is going through as the organization can expand,

stagnate or diminish, whilst skimming profits through expansion will prolong the existence of a company (fig. no. 1).



Fig. no.1 Commercial Stakeholder Hierarchy of Needs

Source: own figure adapted from Maslow, 1943

The customer primarily aims to fulfill the expectations associated with the product/service. Therefore, a value unit for enabling the exchange transaction (i.e. money) is needed (first level). As soon as the customer enters into a formal transaction agreement with the company a contract is in place (second level). The third and fourth level of the adapted hierarchy of needs can be found in a good and growing relationship between the customer and the employee, which in turn has a direct impact on the economic success of the company (Bruhn, 2016). If an employee as the point of contact with the customer is doing a good job fulfilling the expectations of the company the relationship with the customer will deepen and the satisfaction of the customer will increase. At the final level the customer becomes an ambassador of the brand/company, an enthusiast, which is deeply emotionally connected with the values and vision of the company (Meffert, 1999). This type of customer can be converted to a crowdfunder.

The employee wants to have a safe job to earn her/his living (first level) as well as a formal working contract with a long-term perspective with a company offering security (second level). Internal, intra-company relationships between the staff member and the firm constitute the third and fourth level (Bruhn, 2016). On the fifth level the engaged employee is a spokesperson for the company, i.e. also recruiting potential staff members and participating in an ESOP (employee stock ownership program).

The crowdfunder can be seen almost as the typical commercial stakeholder (see above). Money is the foundation she/he is building the business life upon (first level). To engage in crowdfunding monetary funds are needed. To act in a secure environment a contractual basis with all rights and obligations is drafted (second level). The crowdfunder is building his investment on a stable and reviewed contract. Crowdfunding gives all parties the opportunity to get to know each other, to build a relationship (third level), to exchange ideas for future development and to find joint perspectives (fourth level). Crowdfunding per se, as becoming part of a project in terms of funding it and getting a product/service in return or getting direct shares, is the realization of the fifth level, which then still develops with the crowdfunder bringing in her/his abilities/talents and pursuing individual goals like maximizing the gain out of the investment (Gerber et al., 2012).

Therefore, crowdfunding is a way of self-actualization – especially for people who want more impact on businesses than available via the stock exchange, but do not want to become entrepreneurs themselves (fig. no. 2).



Fig. no. 2 Crowdfunder Hierarchy of Needs

Source: own figure adapted from Maslow, 1943

Impact of Crowdfunders on Economic Success of the Company

Having characterized the personality and the economic drivers for a crowdfunder and adapting the hierarchy of needs to his profile the relationships the crowdfunder has in terms of the act of crowdfunding are of interest.

As most of the crowdfunding activities are enabled through internet platforms, where the potential crowdfunder registers and then engages in a project, a relationship between the crowdfunder and the platform can be assumed at this point (Parker et al., 2016). This relationship can grow as the crowdfunder trusts the platform to offer campaigns worth engaging.

One of the specifics of crowdfunding is the ability to get in touch with the employees and internal stakeholders of the company. If the crowdfunder realizes this opportunity, another relationship is originating on that level. The crowdfunder wants to get information as well as return on his engagement. In return the provision of external feedback is offered. The employees are giving the information and getting into a dialogue with the crowdfunder to discuss her/his inputs. The expectation of the crowdfunder on that relationship can be money- or participation-oriented, the employees are expecting the basic engagement. If the trust in this relationship is building up the employees feel affirmed in their work for the company as an external partner is not only engaging, but also providing input and time for the company. This positively influences the corporate culture by outside influences. Also, the individual perspective on the future of the company is altered as more people seem to trust the mission of the firm (Valančienė and Jegelevičiūtė, 2014).

The crowdfunder does not have any direct contact to the customers or clients of the company per se. This can change once the crowdfunder is attending meetings or is acting as a testimonial in marketing activities like audio/video clips (Ryu and Kim, 2016). The crowdfunder expects to receive reassurance from the customers resembling the market that his engagement is the right one and will pay off. The customer is expecting positive feedback for his loyalty towards the company. The contact of crowdfunder and customer, which can also develop into a relationship, can facilitate positive affirmation of the engagements with the company on both sides. The crowdfunder is acting as an ambassador for the company and is a symbol of external trust put into the firm.

Adding the economic success of the company into the model this leads to an adaption of Bruhn's (2016) model of the correlation of employee and customer satisfaction with the economic success of a firm. The figure below depicts the relationship and influences, excluding the relationship of the crowdfunder with the platform as the primary function of the platform is enabling the engagement for a medium- to long-term direct relationship (fig. no. 3).

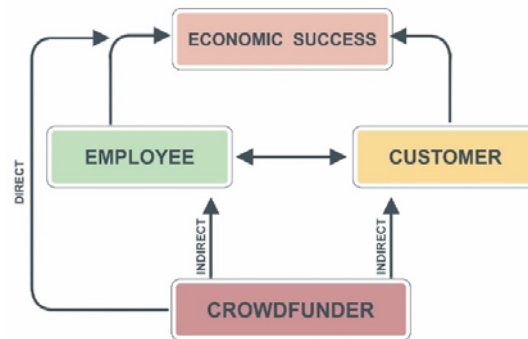


Fig. no. 3 Direct and indirect influence of Crowdfunders on Economic Success of the Company

Source: own figure adapted from Bruhn, 2016

The described relationships of crowdfunders with employees and customers have a positive impact on the employees and customers and therefore there is an indirect impact of the crowdfunder on the economic success of the company. As outlined above the relationship of the crowdfunder and the internal stakeholders are probably stronger, more intense and direct. Also, a direct influence of the crowdfunder on the economic success of the company can be assumed as he is providing a monetary engagement.

Recommendations and Conclusions

As the theoretical foundation shows the interactions of the different actors, empirical proof is needed to verify the impact that crowdfunders have on the economic success of the company. This proof can be split in two different categories, the proof of the direct influence and the proof of the indirect influence.

A quantitative empirical study of companies across various sectors can show the differences in terms of short-term economic success of the company with and without crowdfunding efforts. There are two main challenges to overcome at this point: First, to find companies within the same industry which seem to be comparable by size, lifecycle position and financial status. Second, to exclude other influencing factors besides crowdfunding which have an impact on the short-term economic success of the company. Scenarios can be drawn up simulating the lifespan of the company without the crowdfunding campaign.

Measuring the indirect influence of crowdfunders on the economic success of the company via communication efforts with employees and customers is synonymous with measuring the impact of one mediating factor. As a quantitative approach without a large data set for analysis does not seem promising, a qualitative approach is taken into consideration. Qualitative interviews of the employees implemented using a semi-structured interview guideline and evaluated according to Mayring (2010), unveil the psychological impact of the crowdfunder's support on the workforce. To capture the leverage on the customer a survey targeting different customer groups is being proposed.

A following, deeper understanding of the consequences of the participation and involvement of crowdfunders will lead to develop a scope of arguments in terms of discussions about stakeholder relations. In this regard the proposed research will contribute to the shift from a shareholder to a stakeholder perspective (Fassin, 2008; Baumfield, 2016).

Building upon a basic understanding of crowdfunding and the influence of employees as well as customers on the economic success of a company, this article turned to the Maslow hierarchy of needs and adapted it in the first step to the commercial stakeholder and in the next step to the crowdfunder. Taking this adapted hierarchy of needs into consideration a model of the direct and indirect influence of a crowdfunder was drafted. Whilst failing to

provide empirical research on the interrelation, possible approaches to proof the model and use it for practical implications were given.

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