Communication as the Basis for a Sustainable Crowdfunding: The Italian Case

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Abstract

No clear, univocal distinction between the phenomena of “crowdfunding”, “crowdsourcing” and “sharing economy” emerges from an analysis of the literature. For example, the term “crowdfunding” appears to be used incorrectly to designate other processes of “crowdsourcing” or, more generally, “sharing economy”. The research goal, after carrying out a more detailed analysis of the individual phenomena, is to offer a more precise outline of the characteristics of “crowdfunding” by identifying the needs that it satisfies. And by underlying how communication can be a proper springboard for a sustainable sharing economy.

Keywords: crowdfunding, customer’s needs, platform, crowdsourcing, sharing economy. Communication, sustainability, shared value.

Introduction

The term crowdfunding, which, besides its literal signification, can perhaps be more accurately defined as funding from below, is based on a more innovative idea than is apparent.
Generally speaking, someone that participates in a crowdfunding campaign by contributing their own resources does so in order to satisfy a personal need, in the search for some form of gratification. It is thus of little import whether the request be for the production of a film, a technological object, an innovative enterprise, a donation (pro bono), or whether some form of reward is offered in exchange. In any case, seeking money from the crowd does not mean addressing everyone, but rather identifying, and often constructing, a group of people from the mass who wish to make the project their own, to the point of sustaining it economically.

Crowdfunding therefore presents multiple, varied possibilities. Thanks to the web, it is capable of mobilising resources, intelligence and participation both around global projects, by addressing a worldwide community (especially video games aficionados) and highly localised projects, by mobilising other interests than traditional finance related ones. The problem is that projects drawn up on the basis of a top-down logic, with neither involvement nor preparation, will inevitably be unsuccessful.

As well it happens inside an organization, in order to share the value they create, collective platforms need to communicate their responsible, ethical, philanthropic and sustainable actions in a coherent way and integrate the concept of corporate shared value with the other marketing activities that include branding, and so set up an integrated communication strategy (Schultz, 1993; Krugman et al., 1994; Duncan & Mulhern, 2004; Belch, Belch, 2009).

The necessity of integrating communication levers is perceived by organizations as the most effective and strategic way to recognize their business a reason to exist, and this is undisputed especially in crisis periods (Casalegno, 2012), when new concerns drive people towards more responsible and coherent choices.

In Italy, collective funding platforms have existed for just under a decade (the “oldest” was set up in 2005). According to the data collected by the Italian Crowdfunding Network (ICN), the most representative association for Italian platforms, there were over 30,000 projects on the territory in April 2013, 9,000 of which were online, and of which around 28% were successful. While not very successful in financing individual needs or aspirations, crowdfunding is a successful means of financing community projects: the phenomenon not only responds to the economic crisis and a miserly banking policy on the credit front, but also to the complex nature of the needs.

This study is geared at analysing the phenomenon and systematising it from an economic and business perspective, beginning with an analysis of the needs to which it responds.

**Methodology**

In order to reach the research goal and to understand communities behaviours concerning a sustainable value creation and in which way communication can help crowdfunding companies, we have adopted a qualitative analysis approach to the phenomenon of “crowdfunding” through a study of the Italian platforms and an analysis of the needs that they satisfy.

The research was divided into six stages. Specifically, the following research path was adopted:

1. Analysis of the level of development and examination of the existing national and international theory on the phenomena of “crowdfunding”, “crowdsourcing” and “sharing economy”.
2. Establishment of the analysis sample, consisting of the 45 “crowdfunding” companies operating in Italy. They were identified via the crowdfunding.it platform, and an analysis of the companies’ Ateco code (statistic business classification code).
3. Construction of a database of the sample crowdfunding companies, geared at identifying, for each sample company:
   a) The type of company (non-for-profit, profit, public company)
   b) the type of crowdfunding on the basis of the classifications adopted in national and international literature (reward based, equity based, donation based, lending based)
   c) the need satisfied [Sharing, belonging, accessibility, visibility, support (moral, material, economic and financial)]
4. Identification of the needs satisfied by the sample platforms.
5. Analysis of the uniformity and non-uniformity of the needs.
6. Definition of the commonness of the needs satisfied by “crowdsourcing” and classification of the platforms.
Sample

The sample was drawn up using the 45 existing Italian “crowdsourcing” platforms (already active or about to be activated) on 30th November 2013, identified through the platform crowdfunding.it and an analysis of the companies’ Ateco code.

The sample (Table I) is made up of not-for-profit companies (11) and for-profit companies (34). No public companies are included.

Table I – The analysis sample

On the basis of the subdivision of the four crowdfunding models, we can note that 54% are reward based, of which 96% are for-profit companies, 4% are not-for-profit companies; 18% are equity based, of which 88% are for-profit companies and 12% not-for-profit companies; 22% are donation based, of which 40% are for-profit companies and 60% not-for-profit; 6% are lending based, 100% of which are not-for-profit (Table II).

Table II – Crowdfunding models: distribution for-profit and non-for profit
Literature Review

1) Economic business approach to the study of “crowdfunding”

In order to define a phenomenon from an economic and business-related perspective, a systematic approach can be adopted in relation to the functional areas. This involves studying the business system in its individual components, in order to reduce its complexity, both through an analysis of the company functions, and through an interpretation of the main processes that connect the various functional areas and direct them towards the achievement of communal objectives (organisation, surveying of administrative processes for the drafting of financial documents of external import, planning and testing, etc.). All of this is conducted from an anthropological perspective: the company comes into being in order to satisfy a need (Giovanni Ferrero, 1987). Identifying that need, defining and characterising it, is therefore the first step to being able to study the phenomenon in economic and business-related terms.

This is the theoretic premise that led us to study the business system, which has already been examined through numerous studies adopting different approaches. We have endeavoured to synthesise these below, beginning with the definitions provided by literature.

2) Definition of “crowdfunding”.

Even though “crowdfunding” can be seen to be a relatively recent phenomenon (especially in Italy), it has nonetheless been the subject of numerous studies, especially in recent years. We believe, however, that these studies have not provided a comprehensive examination of the phenomenon (Belleflamme et al. 2011; Lambert and Schwienbacher 2010). One might therefore posit that the existing literature has only provided a satisfactory and thorough description of the main, most general characteristics of crowdfunding, which is a vast and often many-sided phenomenon. Substantial areas of research and important aspects thus still remain to be covered in this regard.

Even if it is now commonly held to represent an autonomous phenomenon (Mollick, 2013), the most common, well-known definitions of crowdfunding generally refer to the phenomena of crowdsourcing (Poetz and Schreier, 2012) and microfinance (Morduch, 1999). More specifically, according to a number of authors (Larralde and Schwienbacher, 2010), crowdfunding can be understood to constitute a part or category of the wider, more general concept of crowdsourcing.

A number of different definitions of crowdfunding have been offered by various authors, with the goal of identifying its characteristic elements and delineating its boundaries, establishing a significant distinction between it and other similar phenomena.
According to Guidici et al. (2012), crowdfunding consists “in getting large group of people to finance a project by using a website or other online tool to solicit funds”, while Lambert and Schwienbacher (2010) hold that “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”. Finally, according to Larralde and Schwienbacher (2010), the phenomenon can be defined as «the financing of a project or a venture by a group of individuals instead of professional parties (like, for instance, banks, venture capitalists or business angels). In theory, individuals already finance investments indirectly through their savings, since banks act as intermediary between those who have and those who need money. In contrast, crowdfunding occurs without any intermediary: entrepreneurs “tap the crowd” by raising the money directly from individuals. The typical mode of communication is through the Internet».

On the basis of these definitions, the main components of crowdfunding can be described as follows:

1. A large group of people (crowd),
2. a provision of financial resources (funds),
3. internet-based means, peer-to-peer, websites or other online tools (Lin and Viswanathan, 2013),
4. a specific objective: a project, specific initiatives or other specific purposes. Burkett (2011) also considers collections made by fans of bands to represent a form of crowdfunding,
5. a form of “return” for the crowdfunders, which can also be of a “moral” nature (for example in a free distribution or donation), or another type of “reward”, gratification or right to vote.

The definition provided by Lambert and Schwienbacher (2010) appears to contain a reference to one of the most well-known applications of crowdfunding, i.e. the fund-raising for Barack Obama’s electoral campaign.

According to the research and consultancy firm Massolution, which published the Crowdfunding Industry Report (2013), an analysis of the development and trends that crowdfunding has undergone over recent years and the developments it is likely to undergo in the immediate future, large companies tend increasingly to use crowdfunding as means of diversifying their portfolio, above all in terms of new Research & Development providers.

Crowdfunding has now emerged as a viable, scalable alternative to public and private finance. These developments have implications for how governments frame economic development programs, and leverage public investments.

Behind the scenes, major, global companies are running the rule over crowdfunding as a way to leverage their innovation portfolios into the marketplace. Crowdfunding is helping enterprises to interact with lead customers, and validate R&D outputs.

The types of crowdfunding are:

- Reward based
- Donation based
- Equity based

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1 This business model is used by project owners who want to collect donations for a specific project and can give (often small) non-financial rewards in return. The rewards are of a symbolic value and provided by the investee. They are usually much lower than the donation amount, to ensure there is enough money left for the project. Nevertheless, the perception of the value can be much higher, for example special VIP tickets as a reward for a higher donation. A reward in this context should not be understood as a token of appreciation. In general, the parties do not consider it a legally binding obligation to provide the goods and do not classify it as a sale. When the different reward-levels are chosen wisely, it is possible to receive a much higher average donation than with a pure donation-based approach [A Framework for European Crowdfunding (2012)].

2 this model is used to attract donations for specific projects. Unlike with traditional fundraising, donations are collected and ear-marked for a specific project. Because funders know that their money will be used on a very specific project, they are more willing to donate higher amounts per person [A Framework for European Crowdfunding (2012)].

3 When a company wants to attract an investment from a group of people, instead of funding by a business angel or another private investor, this is called equity crowdfunding. Some funders are primarily interested in investing in projects that share their own values, that are locally engaging, or that create jobs in their community. Others have a real knowledge of what the market, project, or company is addressing and desires to bring funds and expertise to the success of the project. This practice is very similar to business angels. Equity crowdfunding also generally includes equity-like arrangements, offering the same
There is a gap in the literature in relation to the crowdfunding sector model, which analyses the peculiarity of business models, starting with the customers’ needs.

3) **Definition of “sharing economy”.**

In the last decade, a large number of neologisms have been created to designate phenomena which are at times different, at others very similar. Words such as “sharing economy”, “shared economy”, “Peer Economy”, “Collaborative Economy” often overlap and lack a common definition in literature as well as an in-depth analysis through commonly accepted interpretive models.

“An economic model based on sharing underutilized assets from spaces to skills to stuff for monetary or non-monetary benefits” (Botsman, Rogers, 2010), establishing the introduction of a new way of thinking and a means of utilising resources in an effective, efficient manner as one of the characteristics of sharing economy.

An analysis of the importance and “strength” of this “new” approach to business and economic development was also provided recently by Lisa Gansky in her celebrated work *The Mesh: Why the Future of Business is Sharing*. In its 9 March 2013 issue, the magazine “The Economist” dedicated an article to this phenomenon, underlining above all the immense, unexplored capacities that it offers and affirming that “this emerging model is now big and disruptive enough for regulators and companies to have woken up to it. That is a sign of its immense potential. It is time to start caring about sharing”.

A significant element that needs to be taken into account when analysing any form of sharing economy or crowdfunding, even though it belongs to a more sociological perspective, in connection also with Maslow’s famous “hierarchy of needs table” (see elsewhere), is the “social group” concept, above all in relation to the thinking of Thorstein B. Veblen. The definition of “social group” is equally complex, and there have been numerous, often differing, attempts in literature to define it. For the purposes of our analysis and an examination of the phenomena of sharing economy and crowdfunding, a fundamental aspect of the formation of a group is furnished by the interactive relationship established between its members. As a consequence, a “social group” can be defined as such only when numerous people recognise themselves as being a part of it (one is reminded of the widespread phenomenon of virtual communities). A “group” can thus be defined (Rugiadini, 1979) as “a collection of individuals with common characteristics, between whom a system of social relations is established, which manifests itself and requires an interdependence of behaviour between members”. As a result, each member of the group “fulfils” a particular “function” or “role”, to be understood as a “behavioural model” which meets the requirements and expectations attributed by the group to each individual member. The element and function of each element within the group offers an interesting perspective for studying and analysing individual behaviour in sharing economy and crowdfunding.

4) **Definition of “crowdsourcing”**.

“Crowdsourcing” (a combination of “crowd” and “outsourcing”), is the increasingly widespread procedure of turning to the online “crowd” in order to find solutions to problems of various types. The term was first used by Jeff Howe in the article in the magazine Wired in June 2006, entitled “The Rise of Crowdsourcing”. It was defined as “the act of taking a job traditionally performed by a designated agent (usually an employee) and outsourcing it to an undefined, generally large group of people in the form of an open call”. This illustrates the importance of crowdsourcing for companies. Already well accustomed to calling upon the process of outsourcing, such companies discovered a new global, shared tool free from the restriction of territorial barriers.

Unlike outsourcing, crowdsourcing makes it possible to contract out one or more activities to a group of people or community. It privileges a model of open collaboration, which is dependent neither on dimensions nor on geographical area.

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4 With lending-based crowdfunding, a company will borrow money from a group of people instead of a bank. The role of the platform can be diverse. Some of the platforms will act as a middle-man and will also make the repayments to the lenders, where other platforms act only as match-makers and the borrower and lenders will be connected when the deal is closed [A Framework for European Crowdfunding (2012)].
In 2010, in “Harvesting Knowledge. Success criteria and strategies for crowdsourcing” Henk van Ess affirmed that “crowdsourcing is channelling the experts’ desire to solve a problem and then freely sharing the answer with everyone”. Crowdsourcing is therefore seen as a search, on the part of companies, for experts to resolve their own problems. What distinguishes it from mere consultancy is the fact that the solution provided by an expert is shared on the web and can be added to or modified by the community. Given the chaos that can ensue from the active involvement of a community of individuals which is not managed in a coordinated, rigorous manner, crowdsourcing currently presents considerable limitations.

What is more, while spontaneous collaboration remains fundamental, it can well be assumed that there will be some form of remuneration for those that collaborate actively and profitably.

5) Communication as driver in order to get sustainable results. Hyper-competition, technology, changing stakeholders’ attitudes and virtual social platforms rise have forced firms to rethink their strategy communication, then what are the most effective - and why not, efficient - to involve not only the target, but all stakeholders?

If, as claimed by Baccarani and Golinelli (2003), an organization can take advantage of internal and external relations, it is increasingly clear that the long term competitive advantage has its basis in the intangible, rather than the tangible. Without falling into a business strategy lesson, it is instrumental to remember that intangible assets find poor (or, at least, difficult) reproducibility outside organizations (in general). Communication of values sharing, consistency and clarity is an useful tool for this purpose. Communication itself is seen as “business process”, driven by the audience (Kliatchko, 2008).

Consistency, in particular, is and should be the basis of every action communication. Considering communication tools organizations can exploit nowadays, more frequently they are integrated with each other so as to strike the attention of the interlocutor (target market, analysts, suppliers, etc.). Stakeholders nowadays are used to watch television, surf the Internet and talk on the phone at the same time (Casalegno, Li, 2012). Taking advantage of all the media tools available to a certain audience simultaneously, it is possible to capture targets whole attention with a total involvement to the message. Maybe it's just in all communication tools integration the reason why the huge confusion between the concepts of corporate communication and integrated marketing communication.

Moreover, if the concept of integrated communication has been linked to the marketing one until now, perhaps, in the light of the new tools and the last trends, it would be better to talk about integrated corporate communications, a strategy driven by the willing of sharing with both internal and external communities (Romoli Venturi, Casalegno, De Palma, 2014).

5) Definition and classification of needs

A large part of the national and international literature from the social and economic sciences sets consumption in terms of a response to a need (Sertorio and Martinengo, 2005).

As early as the 1930s, John Maynard Keynes drew adistinction between “those needs which are absolute in the sense that we feel them whatever the situation of our fellow human beings may be, and those which are relative in the sense that we feel them only if their satisfaction lifts us above, makes us feel superior to, our fellows” (Keynes, 1930).

Around twenty years later, Galbraith (Galbraith, 1952) recognised the importance of distinguishing between wants and needs and proposed a distinction between so-called “natural” needs, i.e. those tied to the individual, and “artificial” needs, which emerge when one’s “natural” needs have been fulfilled and are heavily influenced by advertising and communications.

Maslow’s contribution (1973) is particularly significant since it enables us to identify and classify the needs which form the basis of the successive classification of the “crowdfunding”, “crowdsourcing” and “sharing” economy platforms, as a response to the satisfaction of a need. Maslow draws up a theory of motivation, within which needs are classified according to three levels:

1. fundamental needs (physiological, safety, affection, love, belonging, esteem, self-fulfilment),
2. knowledge and understanding needs,
3. aesthetic needs.
We have identified the following categories of need:
1. Need for generosity,
2. Need for convenience,
3. Need for accessibility,
4. Need for belonging.

Moreover, sub. 1 and sub. 4 can be indicated as sustainability needs, since sustainability is the base of community shared value creation.

Discussion
Our analysis of crowdfunding from the perspective of need has led us to identify various categories. Before identifying the need typologies, it is necessary to first ascertain the targets of crowdfunding, namely:
- a) Public, private or not-for-profit companies keen to promote projects or initiatives,
- b) Private parties, keen to promote, sustain or finance projects or initiatives.

These parties take an interest in crowdfunding first and foremost because it satisfies various needs, as set out in the table below (Table III).

<table>
<thead>
<tr>
<th>Parties</th>
<th>Needs</th>
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<tbody>
<tr>
<td>Private Parties</td>
<td>Sharing, Belonging, Accessibility, Shared value creation</td>
</tr>
<tr>
<td>Companies</td>
<td>Visibility, Support (moral, material, economic and financial), Better communication with stakeholders</td>
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Surveys by Istat have confirmed presence of these needs on the market.

The need for sharing, belonging and accessibility are amply illustrated by the combined propensity for internet, social network and social shopping usage. For Italy, the current social network penetration rate is equal to 34% of the total population. This figure, among others, emerged from research published by eMarketer (www.emarketer.com) on the state of social networks in Europe. Facebook remains the most widely used platform in Europe. In this regard, unlike the overall classification list, the United Kingdom is in the leading position in terms of usage on the national territory (29 million). Once again, Italy is in fourth place in terms of registered users: of the total 21 million, 18 million are registered on the social network Menlo Park and use it systematically. This figure is also set to rise. It is estimated that it will go up to 22 million – out of a total of 25 – by 2017. Again, the study conducted by eMarketer recorded 174 million social network users in Europe, a figure set to rise to over 207 million by 2017; there are currently 148.5 million Facebook users, going up to 177 million by 2017. As for the future, Italy seems destined to reach 25 million users in 2017, engaged in tweeting, posting, and commenting. The increase will stand at just over 5%. The need to share is thus on the rise.

As regards the need for visibility, internet platform usage now represents a consolidated tool for achieving greater visibility without the restriction of territorial barriers. According to the census taken by Istat in December 2013, 94% of Italian firms with more than 10 employees have internet access and 76% of companies use the web to engage with the public authorities, at various levels. Broadband connections are very widespread (88%), even if at unremarkable speeds (73% run at less than 10 Mbit/s). On the other hand, only 63% of companies (again with more than 10 employees) have a website. Few make purchases online (27%) and even less sell via the internet (5.4%). Istat’s survey on the use of ICT within companies provides contradictory results. While on the one hand the internet and the web are a given in companies, one can still note a certain inertia in relation to the usage of new technologies at all levels. For example, it is certainly significant that 65% of companies have made use of services offered on the web by the public authorities (PA): 39% have sent forms filled out online to the PA (employee contributions, company revenue, VAT, customs documents).
And yet less than 15% use electronic invoicing in a format which allows for automatic data processing. The general impression is that companies have equipped themselves, or are doing so, but without having fully grasped the potential offered by ICT. E-commerce is another example. Electronic commerce is the norm in 3 out of 10 companies. Yet, as we have suggested, only 5.4% sell their own products online and the volumes in play are very limited (5% of the total turnover).

Nonetheless, there is still a large difference between small and large companies. According to Istat, the gap in the use of new technologies is in the order of 30% for activities such as 3G usage for accessing the internet, sending forms filled out online to the PA, completing complete administrative procedures online, e-commerce, and the use of collaboration software.

And yet, 90% of companies with more than 250 employees have their own company homepage, a percentage which drops to 60% for companies with less than 50 employees.

But how exactly is the site used? Catalogues or price lists are the most frequently offered services (33%). 13.5% offer visitors the possibility of ordering online and only 6.1% offer an online order tracking service. The concept of the “window-shopping site” still persists in many cases. In this regard, crowdfunding platforms can represent a duplication of virtual shop-windows.

There is a strong need for support in periods of economic crisis such as the one we are currently undergoing, in which structural funds and the inclination to invest become scarce.

Support can be categorised according to three profiles:

- Moral, adhesion to the project or initiative,
- Material, exchange of objects, lending of facilities, etc….,
- Economic and financial, financing through money or in kind.

In the collective mind-set, crowdfunding came about so as to satisfy the same need, but through a different method. However, beginning with the need, research has demonstrated that “crowdfunding” is often confused with “crowdsourcing”.

Where the need for sharing and belonging for private parties is combined with a need for visibility and material support for companies, the phenomenon can be defined as “crowdsourcing”. Where, however, the need for sharing and belonging for private parties is combined with the need for economic and financial support for companies or other private parties, the phenomenon can be defined as “crowdfunding”. This suggests that there are two business sectors with typically divergent economic and business functions and characteristics.

By reclassifying the “crowdfunding” platforms from the sample analysed in light of the identification of the needs satisfied by crowdfunding platforms, it becomes apparent that it is not possible to apply the “crowdfunding” model to all 45 entities sampled. Rather, one should apply the “crowdsourcing” model since the economic and financial need is not satisfied.

Specifically, two platforms currently classified as “reward based” crowdfunding are reclassified using the “crowdsourcing” model.

**Conclusions and Advanced Research Developments**

On the basis of the analyses carried out, crowdfunding can be defined on the basis of the need that it satisfies. In particular, if the need satisfied relates to sharing, on the one hand, and economic and financial support on the other, we are dealing with homogeneous companies, which belong to the crowdfunding sector. If, however, the need satisfied relates to sharing and material or moral support, the relevant model is “crowdsourcing”, which describes a business sector with different characteristics from those of the “crowdfunding” sector. The two business models belong to the macro phenomenon of “sharing economy”.

The following prospects for future research and in-depth study thus emerge:

- An analysis of the “crowdsourcing”, “crowdfunding” and “sharing economy” models in relation to functional areas.
- An examination of the validity of identifying needs as a parameter for classifying the platforms, extending the analysis to an international sample.
- A verification of the sustainability of the business model.
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