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Crowd funders' motivations to support impact-oriented projects

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ABSTRACT

Alternative methods of financing are increasingly popular in Switzerland and project creators are turning to models like crowdfunding to get funding from a group of individuals, rather than investors. Semistructured interviews were conducted with experts from various backgrounds to better understand the importance of the crowdfunding model when assessing the crowd's motivation to support impact-oriented projects. This study uncovers the segmentation of crowdfunding models into two categories and the implications for crowdfunding campaigns in each one. Reward and donation-based campaigns must highlight their projects' positive impacts on society, relative to environmental and social aspects, while equity and lending-based campaigns must emphasize financial criteria, such as the return on investment they can generate for their backers.

KEYWORDS

Social entrepreneurship; crowdfunding; impact investing

Introduction

Since the 2008 crisis, funding through traditional sources (that is, banks) has been more difficult for European small and medium-sized enterprises (SMEs) (Kaya, 2014; Lee et al., 2015). This is particularly problematic, as SMEs play a key role in the European markets with regard to employment and economic activity. To counteract the rising difficulty for small firms to get funding, novel forms of financing, like crowdfunding, are being used by start-ups. According to Bouncken et al. (2015), there are four models of crowdfunding: reward-based, donation-based, equity-based, and donation-based, where each form has its particularities. Reward-based is the most common, where people pledge a certain amount to receive a material or immaterial reward. This model is mostly targeted toward affinity-based consumers that are interested in the product. Donation-based crowdfunding differs from reward-based by proposing an immaterial reward, generally in the form of an acknowledgment, to backers. However, it is possible that tangible rewards are offered as a gesture. Equity-based crowdfunding, also know as equity-crowdfunding or crowd investing, enables the entrepreneur to issue shares to the backers. The last

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form is lending-based crowdfunding, also known as crowdlending, and enables founders to contract loans from backers.

Although crowdfunding is an innovative solution giving more financing options to funders, it still faces a few issues and barriers for companies and backers. The principal disadvantage crowdfunding is facing is trust. According to Moysidou and Hausberg (2020), trust in the quality of information and in the crowdfunding platform are more important than trust in the creator. Platforms are already working toward improving trust as they enforce transparency by providing the details and risks incurred by potential pledges, which are especially important for the equity- and lending-based models (Rey-Martí et al., 2019). Blockchain could be a solution, as the ledger-based technology enhances transparency and trust for all stakeholders (Da Rosa Righi et al., 2019). Another issue is the lack of environmental projects seeking funding on these platforms. Hörisch (2015) considered these projects to be disadvantaged and suggested funders to seek crowdfunding models that do not rely on rewards as compensation to backers. Another issue with environmental and social projects is that they are hidden among the vast amount of projects displayed on the common platforms, making it difficult for supporters to find them (Bartenberger & Leitner, 2013).

Switzerland faces additional issues when it comes to crowdfunding. In 2018, lending and equity-based models represented over 90 percent of projects financed through crowdfunding (Amrein & Dietrich, 2019). Crowd investing saw 36 start-ups being funded through Investiere's platform, which requires investors to be qualified and a minimum entry ticket of CHF 10′000.-, representing the majority of transactions. On the crowdlending side, the average credit was CHF 17′000.- and some platforms reported having more than 80 percent institutional lenders. Seeing these high values puts in perspective the idea that crowdfunding is used by the masses to fund projects with small amounts.

Research gap

Vaznyte et al. (2020) stated that crowdfunding awareness depends on the individual's gender as well as socioeconomic environment. The question that arises is what factors push aware individuals to participate in crowdfunding campaigns? When going through the literature, a lack of focus on environmental and social projects was noted. Only one study, written by Adhami et al. (2019), was found to discuss the environmental aspect. They discovered that backers of environmental projects will more likely pledge toward projects that deliver economic benefits to the local community. They, however, acknowledge that their study did not focus on regional or community-level projects. Another gap is the fact that only one study, written by Gerber and Hui (2013), included people who thought of crowdfunding but decided not to use that means of funding or backing. Last,

all studies focus on reward- and donation-based models. These gaps demonstrate the lack of research relating crowdfunding to environmental or social projects as well as equity- and lending-based models. When selecting a relevant sample, there is also a lack in the selection of funders and entrepreneurs who initially thought of crowdfunding but decided not to go down that path.

Aim of study and research questions

The purpose of this study is to examine various stakeholders' views on the crowd's motivations to back crowdfunding projects in Switzerland. Additionally, this study will attempt to discover if the crowd's motivations are similar from one crowdfunding model to another. To this end, the objectives of the study are to:

(1) Determine the validity of factors discovered by Gerber and Hui (2013) in the context of the crowd supporting Swiss impact-oriented projects.
(2) Determine the validity, for Swiss environmentally or socially oriented projects, of Adhami et al.'s (2019) discovery that environmental projects are more likely to be supported by the crowd if they deliver economic benefits to the local community.
(3) Discover if other factors are motivating or deterring the crowd's support of Swiss impact-oriented founders and their projects.

Research questions

- What motivations and deterrents do the crowd face when contributing to sustainable projects through equity-, lending-, reward-, or donation-based crowdfunding?
- What factors impact the willingness of the crowd to fund impact projects with small amounts?
- What importance does the project's impact on the local community have to investors?
- How does the use of blockchain increase the crowd's trust in the projects and platforms?
- Are the crowd's motivations similar between distinct crowdfunding models?

Methodology

A grounded theory process was used, as limited research has been performed on this specific topic. An inductive approach was followed by performing a select amount of semistructured interviews (Kumar, 2011) to make a broad generalization of the crowdfunding situation in Switzerland. The research

attempts to uncover how the various Swiss crowdfunding stakeholders, based on their experiences and beliefs, view the motivations for supporters to pledge to crowdfunding campaigns. Additionally, the proposed research will also seek to uncover potential distinctions between subsets of crowdfunding supporters. The factors identified byAdhami et al. (2019) as well as Gerber and Hui (2013) were used as a baseline to develop the interview and questions.

Ten Swiss crowdfunding stakeholders were interviewed, of which six worked for crowdfunding platforms (three reward-based, one donation-based, one lending-based, and one equity-based). Two had start-ups (one which has used crowdfunding). The other two were a blockchain expert and a managing partner at an impact hub.

Semistructured interviews were conducted in English or French through phone calls or digital communication applications (Zoom and Skype). They lasted 30 minutes on average and were recorded and coded in three steps: open, axial, and selective coding (Corbin & Strauss, 1990).

Findings

During the interviews, clear factors emerged when considering the motivations and deterrents the crowd faces when supporting sustainable projects. The various stakeholders feel that trust is not an issue. Many crowdfunding platforms in Switzerland are associated with well-established companies and profit from well-known brands that inspire trust. Thus, they do not focus on this aspect and believe that blockchain will be difficult to market to the crowd due to its complexity. However, some interviewees do think that blockchain might become an industry standard in the future.

The factors proposed by Adhami et al. (2019) and Gerber and Hui (2013) depend on the crowdfunding model. Financial criteria are very important to lending and equity-based models, while the environmental or social aspects have low to no importance. On the other side, environmental and social aspects are important to backers for reward- and lending-based models.

Implications for theory and/or practice

This research complements the existing literature by providing an insight into the crowdfunding situation in Switzerland for impact-oriented projects.

Crowdfunding platforms in the donation- and reward-based models must put forward social and environmental projects, as backers want to support projects to help others and make a difference. On the other side, equity- and lending-based models must put forward return on investment perspectives.

Environmental and social aspects can be put forward, but must be associated with the potential financial gains and associated risks.

Limitations

As this study focuses on stakeholders' views, a quantitative follow-up study with the crowd must be conducted. A large-scale analysis with sufficient data will be required to validate the findings. Additionally, only Swiss projects that are impact-oriented were included. Therefore, additional studies must be conducted to validate the conclusions for other countries and for nonimpact-oriented projects.

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