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***Research paper***



# Sponsors' motivation to consistently crowdfund projects

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**Abstract**

Crowdfunding is fast emerging as a viable financing method in this digital age as a solution that allow businesses, individuals or organizations to raise capital in the form of either investments or donations from a number of individuals. As of now, two models have been applied by platforms for reward based crowdfunding projects - the subscription based model and the project based model. Project based model follows the traditional method of a sponsor supporting a project one time during the crowdfunding period. Subscription based model on the other hand is a new model followed by crowdfunding platforms like Drip and Patreon where they ask sponsors to repeatedly fund projects on a monthly basis. In this study a comparison was done between the two models to understand motivational factors that would attract sponsors to fund an idea in each of these models. For this a conceptual model was developed after an extensive literature review. The moti-vation drivers include interest, reward, relationship, recognition, playfulness and philanthropy. The model was tested using primary data collected through a pan-India survey involving 178 respondents. The data was analyzed using the ordered logistic regression model. Our analysis shows that relationship and playfulness have a positive impact on a sponsor's intention to fund projects in a subscription based model. This signifies a need for integrated communication channel between sponsors and creators. The comparison of the two models also showed relationships, rewards, interest and philanthropy motivations differentially impacting the project based model as compared to the subscription based model.

***Keywords***: *Crowdfunding; Sponsors; Engagement; Communication; Subscription.*

## 1. Introduction

Crowdsourced funding is a means of raising money for creative projects (for instance, music, film, book publication), benevolent or public-interest causes (for instance, a community based social or co-operative initiative) or business ventures, through small financial contributions from persons who may number in the hundreds. Those contributions are sought mainly through online crowd-funding platforms, and promoted through social media.

Crowdfunding is an essential means to boost the economy as it gives creators an opportunity to raise capital and even understand the market for their product. In a fast growing economy like India with a population reaching 1.3 billion, new opportunities needs to be provided in the forms of job to keep the economy in a growth ladder. India has had many policies to keep the growth of economy upscale with make in India policy, policies supporting startup spaces etc.

But the situation in the startup committee in India shows that companies that have been established for a while tend to innovate based on new technology while new entrants do innovation on business model or on marketing. One of the reasons cited was lack of resources available to small firms. Crowdfunding offers an avenue to overcome the situation.[1]

Even then startups and inventors are struggling to understand the potential market for their product and for initial investment necessary to raise capital; crowdfunding provides an opportunity around it. In year 2017, 45% of startups failed due to a lack of funding and increase in lack of funding from 41% in 2013[2].

Real time communication based on internet has brought barriers of distance down, social networks have eliminated the need of first degree relationships, and web apps have removed the middlemen acting between customers and providers. Online crowdfunding continues this spirit of removing the layer of middlemen between investors and investees.

Furthermore, with the increase in mobile penetration, Indians in general have increased payments through online means as well. It was also found that Indian consumers were more likely to pay online for products that were seen as new, sophisticated and classy[3]. As this trend grows, a possible ripple effect could happen in the crowdfunding sector as well - funding asked for development of new products and innovations could more attract people to crowdfunding.

Crowdfunding has four basic types: (1) No returns are expected for their donations by sponsors, (2) sponsors lend funds as loan, with the expectation of a small return, (3) reward based model in which sponsors receive rewards for backing a project, and (4) the sponsors invest for receiving equity stakes for their donations.

In this study, the reward based model is examined; the model is suitable for creative projects attempted by musicians, artists, film makers and inventors. Sponsors support projects in exchange for some reward in reward-based model.

As of now there are two crowdfunding models that have been employed by platforms to crowdfunding projects- the subscription based model and the project based model. The literature on crowdfunding is small but growing, but there has been surprisingly little research on the relative effectiveness of the two crowdfunding models in their ability to attract funds. In our study we focus on the motivational drivers behind the two modes of funding. Our results show that while relationship and playfulness have a positive association towards the intention to fund projects in a subscription based crowdfunding model – other motivational drivers such as interest, recognition, philanthropy and reward influence the intention to

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sponsor project based crowdfunding but do not impact the subscription based crowdfunding intention.

## 2. Literature review

Crowdfunding has given rise to a new avenue for obtaining capital investments for startups and projects when compared to the traditional means of venture capital and angel investing. In a comparative analysis conducted on equity crowdfunding, venture capital, angel investing, and rewards-based crowdfunding, the results showed that traditionally used decision criteria for venture capitals and angel investors are not drivers for a successful crowdfunding - the success instead is related to crowdfunding campaign characteristics and the utilization of private networks of creators and public networks of the crowdfunding platforms [4].

Extant research on why people are motivated to post and fund projects on platforms points to the role of social interactions realized through crowdfunding platforms, such as strengthening commitment to an idea through feedback (creators) and feelings of connectedness to a community with similar interests and ideals (funders) [5]. Perceived risk also matters - the successful platforms provide the investors with assurance that initial due diligence has been carried out on the project and the creator and thus reducing perceived risk.

Research on the influence of innovativeness on funding outcomes reveals that crowdfunding campaigns characterized by greater incremental innovativeness are more comprehensible and generate more user value for typical crowdfunders, and thereby may result in more favorable funding outcomes [6].

Social Capital is also an important driver that influences the success in crowdfunding projects as these factors give credibility to the project. For example, it was found that the number of Facebook friends and amount of words to describe the project was found to have significant positive influence on the chances of success of the project [7]. But at the same time it was found that the word count for the pitch to have a positive effect should be concise for the pitch, increased count has a negative effect on success. A pitch presented using pictures was found to increase the number of investors [8]. Similarly, an explorative study to understand the dynamics of crowdfunding shed light on the success of crowdfunding efforts association with personal networks and project quality [9].

The project success also depends on how well it signals its legitimacy. Existing research shows that lower funding targets and shorter duration signal legitimacy by setting modest, achievable expectations [10]. Unrealistic funding goal tends to puts potential investors off and decreases the number of people who invest and also request fund amounts should be set in relation to the funding goal [8]. Similarly, rewards structures such as traditional equity investment terms appear to generate a sense of legitimate investment returns.

A recent typology of crowdfunding sponsors segmented sponsors into different groups - angelic backer, reward hunter, avid fan, and tasteful hermit - based on their motivations [11]. Angelic backers are similar to conventional philanthropic donors while reward hunters are comparable to angel investors. Avid fans comprise of the most impassioned sponsor group, and they are comparable to members of a brand community. It was found that tasteful hermits support the projects similarly to avid fans, but they have lower extrinsic and others-oriented motivations. Avid fans are motivated by relationship building along with rewards while tasteful hermits are willing to participate without rewards.

Factors like guilt appeals, utilitarian product types, an emotional message frame, and reward tiers in a promotional campaign were significantly related to motivate the sponsors positively to increase funding level which was measured as a percentage of funding goals by [12].

Apart from the sponsors and projects characteristics, the fundraiser model employed also impacts crowdfunding success. All-or-nothing and keep-it-all are two fundraiser model used in crowdfunding [13]. All-or Nothing the creator gets the money only if, the funding threshold is reached or exceeded. But in Keep-it-All model the creator gets the money regardless of whether the funding goal is reached. It was shown that the investors perceived keep-it-all model to be risky as there's a chance that the project could get underfunded and the entrepreneurs will not be able to fulfill their promise to the investors.

The literature on the subscription based model of crowdfunding is relatively sparse. Research on the dynamics of crowdfunding project towards the duration of the project suggests that the people support crowdfunding projects by donating money when they believe that their donations will make an impact [14]. As perceptions of impact are positively associated to proximity of goal of a project, it may be surmised that support for a crowdfunding project will increase as the project funding approaches its target goal. Finally, a crowdfunding study named "What Problems Does Crowdfunding Solve?" showed that efforts to use crowdfunding to generate recurring revenue were less successful [15].

## 3. Conceptual model and hypothesis

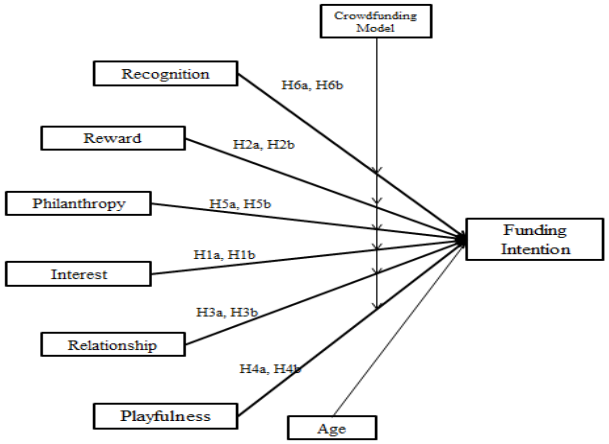



**Fig. 1:** Conceptual Model.

Extensive review of literature for this study resulted in conceptualization of a model to help understand the difference in different motivations of sponsor's along with age towards intention of sponsor to fund in subscription based crowdfunding model compared to project based crowdfunding model. The drivers of motivation are – Interest, Rewards, Playfulness, Relationships, Recognition, and Philanthropy.

### 3.1. Interest towards Project

H1a: There is a positive relationship between the sponsor's interest in the project and the intention of sponsor to fund the project.

H1b: The relationship between interest and intention to fund is stronger for subscription based funding as compared to project based funding.

The drivers have different effects on the subscription model as it is for long term than the one time funding in the case of project based model. For one, the sponsor must have higher level of interest towards a project to continue to fund it.

### 3.2. Reward for funding

H2a: There is a positive relationship between the reward being offered in the project and the intention of sponsor to fund the project.

H2b: The relationship between reward and intention to fund is stronger for subscription based funding as compared to project based funding.

When considering the rewards, unlike the one time projects where the sponsors wouldn't be looking for any tangible benefit, the sponsors must be offered something tangible to keep him or her motivated for repeatedly sponsoring a project.

### 3.3. Playfulness of project

H3a: There is a positive relationship between playfulness as motivation and the intention of sponsor to fund the project.
H3b: The relationship between playfulness and intention to fund is stronger for subscription based funding as compared to project based funding.
The extent to which a sponsor gets to enjoy the project and should be high in subscription based model as keeping them engaged would make them return to fund the projects repeatedly.

### 3.4. Relationship building

H4a: There is a positive relationship between opportunity to build relationship with creator as motivation and the intention of sponsor to fund the project.
H4b: The relationship between opportunity to build relationship with creator and intention to fund is stronger for subscription based funding as compared to project based funding.
The extent to which a sponsor gets to engage with the creators of the project and other sponsors would help the project to be consistently funded as they would like to return to highly engaging environment.

### 3.5. Philanthropy

H5a: There is a positive relationship between philanthropy as motivation and the intention of sponsor to fund the project.
H4b: The relationship between philanthropy and intention to fund is stronger for subscription based funding as compared to project based funding.
The sponsors should feel a need to assist the creator to back the project, to be consistently funding a project; the sponsors should have a high level of responsibility to the project.

### 3.6. Recognition for funding

H6a: There is a positive relationship between recognition as a motivation and the intention of sponsor to fund the project.
H6b: The relationship between recognition and intention to fund is stronger for subscription based funding as compared to project based funding.
Recognition looks at the desire of sponsor to be acknowledged in its social circle for his or her willingness to fund the project. It is an others-oriented motivation and study previously have proven that only a low amount of recognition is needed to be given to the sponsor to fund the project in project based model. But the platform Patreon that utilizes subscription based funding recommends recognition as a mode of reward. Adding to the logic, a sponsor ready to fund repeatedly would have stronger positive association to the project in subscription based model if they are recognized for their funding.

## 4. Conceptual model and hypothesis

### 4.1. Questionnaire and scale development

The questions in the survey instrument developed for the study measured the drivers of sponsor motivation- interest, reward, relationship, recognition, playfulness and philanthropy. A few standard scales were taken from existing literature on sponsor motivation while the rest was adapted from existing funding intention literature as little research has been done to the best of our knowledge on comparing motivations and intentions for subscription based model and project based model.
The variables for motivations were measured using 7 point Likert scales and intention was measured using 5 point Likert scales ranging from strongly disagree to strongly agree. The scale measuring motivation to fund was adopted from "A typology of crowdfunding sponsors: Birds of a feather flock together?" [11].

### 4.2. Data description

For the purpose of the study, data was collected from 178 respondents across various age group and location across India using quota based sampling. The data from the survey was collected during February and March 2018. The following table describes the sample collected for this study.

**Table 1:** Sample Taken for Survey

| Description of Sample | | | | |
|---|---|---|---|---|
| Age and Gender | | Gender | | |
| | | Female | Male | Total |
| Age | below 18 | 0 | 0 | 0 |
| | 18 – 24 | 21 | 29 | 50 |
| | 25 – 34 | 28 | 59 | 87 |
| | 35 – 44 | 6 | 22 | 28 |
| | 45 – 54 | 2 | 3 | 5 |
| | 55 – 64 | 0 | 7 | 7 |
| | 65 and above | 1 | 0 | 1 |
| | Total | 58 | 117 | 178 |

### 4.3. Empirical model

To understand the impact of motivations on the two models and compare them, the study estimated two regression models – one each for intention to fund subscription based and project based funding models. Given the categorical nature of the dependent variables, Ordered Logistic Regression Model was used and analysis was carried out using STATA 13.0.

#### 4.3.1. Model 1

$$Intention\ to\ fund\ in\ PBM\ =\ f\ (t_{int}, t_{rew}, t_{rel}, t_{rec}, t_{play}, t_{phil}, age \quad (1)$$

Where PBM - Project Based Model
$T_{int}$ – Interest
$T_{rew}$– Rewards
$T_{rel}$ – Relationship
$T_{rec}$ – Recognition
$T_{play}$ – Playfulness
$T_{phil}$ – philanthropy
In (1) model, the different motivations and age are introduced to the sponsor's willingness to fund Project based model. The values obtained from this model would be used to compare with values obtained from empirical model1 to check the Hy pothesis – H1b, H2b, H3b, H4b, H5b and H6b.

#### 4.3.2. Model 2

$$Intention\ to\ fund\ in\ SBM\ =\ f\ (t_{int}, t_{rew}, t_{rel}, t_{rec}, t_{play}, t_{phil}, age \quad (2)$$

Where SBM - Subscription Based Model
$T_{int}$ – Interest
$T_{rew}$– Reward
$T_{rel}$ – Relationship
$T_{rec}$ – Recognition
$T_{play}$ – Playfulness
$t_{phil}$ – philanthropy
In (2) model, the different motivations and age are introduced to the sponsor's willingness to fund in the Subscription based model to check the hypothesis – H1a, H2a, H3a, H4a, H5a, and H6a.

**Table 2:** Coefficients of the Variables from Model 1 & 2

| Results of Regression from Model 1 & 2 | | |
|---|---|---|
| Independent Variable | Project Based Crowdfunding Model | Subscription Based Crowdfunding Model |
| Interest | 0.09443279* | 0.01958619 |
| Reward | -.08913243** | 0.00397164 |
| Relationship | .14879074** | .13099148** |
| Recognition | 0.00033588 | -0.01628874 |
| Playfulness | 0.03353582 | .07788643* |
| Philanthropy | .17475578*** | 0.08130816 |
| Age | -0.11969525 | -0.37307544 |
| Constants | Included | Included |
| legend: * p<0.05; ** p<0.01; *** p<0.001 | | |

**Table 3:** Odds Ratio of Model 1 & 2

| Independent Variable | Project Based Crowdfunding Model | Subscription Based Crowdfunding Model |
|---|---|---|
| Interest | 1.083769* | 1.013213 |
| Reward | 0.0909095** | 1.000784 |
| Relationship | 1.18224 | 1.151652 |
| Recognition | 0.991767 | 0.9794614 |
| Playfulness | 1.043629 | 1.091884 |
| Philanthropy | 1.191923 | 1.07623 |
| Age | 0.8962698 | 0.6765438 |
| Constants | Included | Included |
| legend: * p<0.05; ** p<0.01; *** p<0.001 | | |

## 5. Conceptual model and hypothesis

Our analysis indicated that relationship as a motivation significantly influenced the intention to fund in the subscription based model, but contrary to our expectations the odds of funding were slightly lower for the subscription model than the project based model.

Interest as a motivation significantly influenced the intention to fund a project, but this relationship held only for the project based funding model. Similarly, rewards as a motivation for sponsoring crowdfunded projects were significantly and negatively related to intention to fund project based crowdfunding models, and had no influence on the intention to fund subscription based crowdfunding models.

Our results on the impact of playfulness as motivation on the intention to fund were in line with our expectations. The impact of playfulness on intention to fund in the subscription based model was positive and significant. Literature suggests that playfulness of a project leads to sponsor engagement which improves the chances of sponsors consistently funding a project. Playfulness, however, had no impact on the intention to fund project based models.

As hypothesized, opportunity of relationship building as motivation was significantly and positively related to the intention to fund the project online. However, contrary to our expectations, the odds ratio for relationship building on intention of sponsor to fund a project was smaller for the subscription based model compared to the project based model.

Philanthropy as motivation was a significant driver for funding project based models but not subscription based models. Finally, neither recognition as motivation nor age had no significant impact on the motivation to fund either the subscription based model or the project based model.

## 6. Future scope of study

In this study, we look into the primary motivations that could lead sponsors to fund a project. Although there are studies that examine the motivation of sponsors to Crowdfund projects, it has been limited to one time projects. The studies on the subscription-based model have been limited and therefore have great scope.

Many insights can be generated through empirical investigation of the data with age as a moderating variable. A preliminary analysis showed how the age would affect the factor that motivates people to fund project. An initial analysis on the topic shows people above 34 years old are motivated by the rewards offered in the project while the ones who are 34 years old and below are motivated by the philanthropic side and relationship building opportunities offered by the project in subscription based funding.

Also, the study was done to understand the intention to fund; obtaining results from respondents who have funded projects to understand the motivations, which could lead to successful funding of a project, would be interesting.

## 7. Conclusion

The study compares the impact of motivations on different models of reward based crowdfunding. We found consistent differences in the influence of motivational factors on the intention to support subscription based and project based crowdfunding models. The motivation drivers for subscription based model are playfulness and relationship. This suggests creators will have to create sponsor engagement activities either within the project or hold meeting with sponsors of the project for them to meet each other and build relationship. Similarly, interest, relationship and philanthropic motivations were positively associated with the intention to support project based crowdfunding models.

Result for influence of reward on project based crowdfunding was found to be negative, the result was unexpected. We speculate the respondents were shy of saying that they will fund the projects for rewards offered since rewards offered as motivation to fund the project shouldn't have produced negative association. Further studies will be required to understand the analysis.

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